Economic Research

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Stimulus Package 2020

Bolstering confidence, stimulating growth, protecting jobs

Economic Research Led By:

Nor Zahidi Alias
Chief Economist
+603 2717 2936
zahidi@marc.com.my

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Stimulus: 3 Main strategies

Last Thursday, the government launched a stimulus package worth RM20 billion to soften the double blow of the COVID-19 outbreak and lingering trade war uncertainties on the Malaysian economy. The package encompasses three strategies, namely:

1

Mitigating impact of COVID-19

- Ease cash flow issues of affected businesses
- Stimulate domestic tourism sector
- Assist affected individuals

2

Spurring rakyat-centric economic growth

- Boost household spending
- Boost people-centric projects

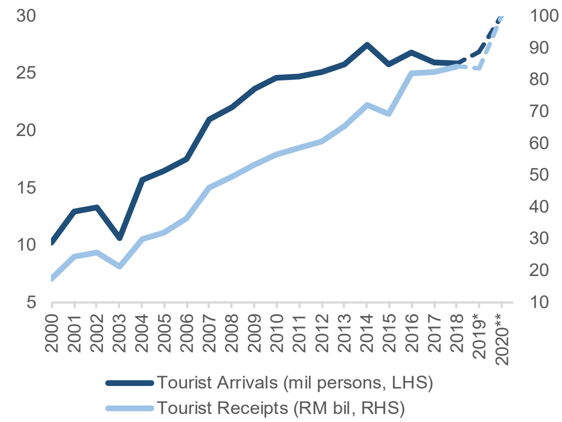
3

Promoting quality investments

- Leverage on public investments
- Provide incentives to encourage quality private investments

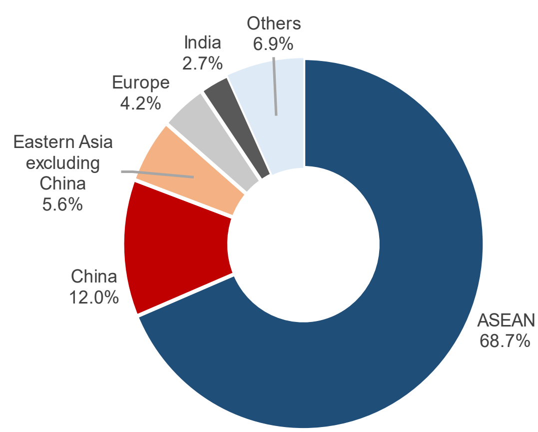
Mitigating impact of COVID-19

Chart 1: Malaysia's tourist arrivals and receipts since 2000



**Annualised figures*
***Target set in VMY 2020 campaign*
Sources: Tourism Malaysia, CEIC, MARC Economic Research

Chart 2: Malaysia's tourist arrivals by region/country in the first three quarters of 2019



Sources: Tourism Malaysia, CEIC, MARC Economic Research

- A significant portion of the measures in the stimulus package is targeted at tourism and tourism-related sectors. This is given the sectors' extensive intersectoral linkages and labour-intensive nature, which make them important sources of employment.
- The government had expected the Visit Malaysia Year (VMY) 2020 campaign to attract 30 million tourist arrivals – with Chinese nationals making up about 12% of the target – and tourist receipts to reach RM100 billion. With the COVID-19 outbreak, these targets would be difficult to achieve. The economic and financial impacts of the outbreak have been most immediate and significant in tourism and tourism-related sectors, namely hotels, airlines, travel companies and more broadly the tourism-dependent retail industry.
- Measures to mitigate the impact of the COVID-19 outbreak include allowing the deferment of monthly income tax instalment payments for businesses in the tourism sector over the April-September 2020 period. Another measure provides for a 15% discount in the monthly electricity bills of hotels, travel agencies, airlines, shopping malls, conventions and exhibitions centres.

Spurring economic growth

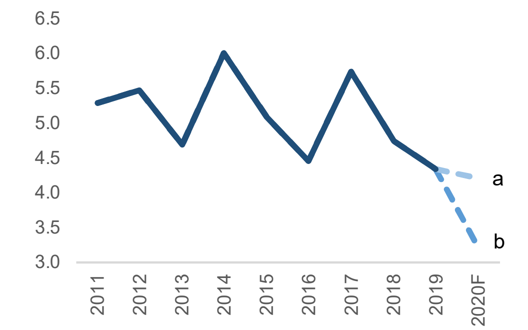
- Incentives under the stimulus package to support consumer spending include the voluntary reduction in Employees Provident Fund (EPF) contribution, increase in cash assistance of Bantuan Sara Hidup (BSH) on top of already allocated under Budget 2020, one-off payments to taxi drivers, tourist bus drivers and tourist guides, and additional allowance for medical doctors and medical personnel, as well as for immigration and front line staff.

- This is commendable given that private consumption has been the main growth engine in recent years. In 2019, it accounted for nearly 59% of GDP and contributed 100% to headline growth. The support is also critical because investment growth is expected to be sluggish against the backdrop of rising global and domestic economic uncertainties. In any case, we anticipate private consumption to expand at a slower pace of 6.2% in 2020 because of expected rising unemployment following weaker manufacturing and services growth.

- We expect small and medium enterprises (SMEs) to benefit from the inclusion of several measures aimed at reviving private investments. Bank Negara Malaysia (BNM) will provide – all at an interest cost of 3.75% – a RM2 billion Special Relief facility for SMEs, a RM1 billion agrofood facility to promote food production activities, and a RM300 million SME automation & digitalization facility. As for public investments, about RM2.4 billion will be allocated to federal and state governments to fund small-scale infrastructure projects such as the repair of public amenities.

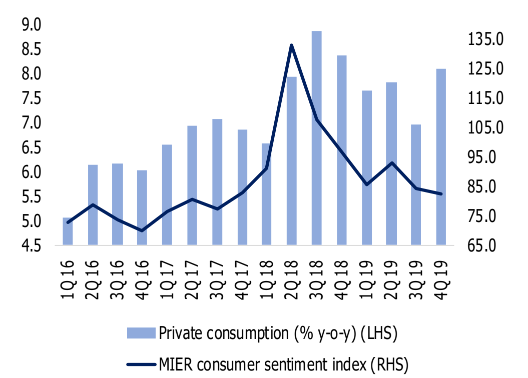
- As pointed out in our latest publication, we see high likelihood of monetary policy support in the near term via a further cut in BNM's overnight policy rate (OPR). The OPR, which was reduced by 25bps to 2.75% in January 2020, remains well above its historical low of 2.00% during the Global Financial Crisis (GFC). As such, there remains enough room for a further cut if deemed necessary.

Chart 3: Malaysia's real GDP growth since 2011



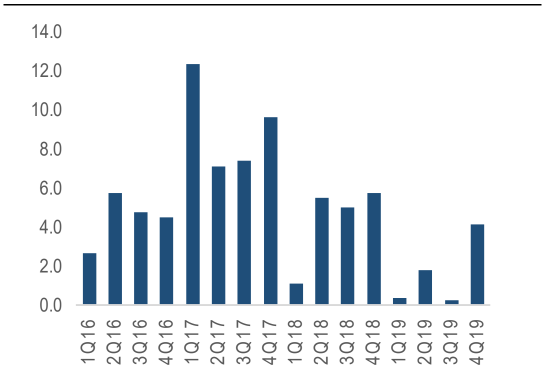
a, b: upper and lower bound of the real GDP growth forecast announced in stimulus package 2020 (3.2%-4.2%)
Sources: Department of Statistics Malaysia (DOSM), Ministry of Finance (MOF), CEIC, MARC Economic Research

Chart 4: Malaysia's private consumption growth and consumer sentiment index



Sources: Malaysian Institute of Economic Research (MIER), DOSM

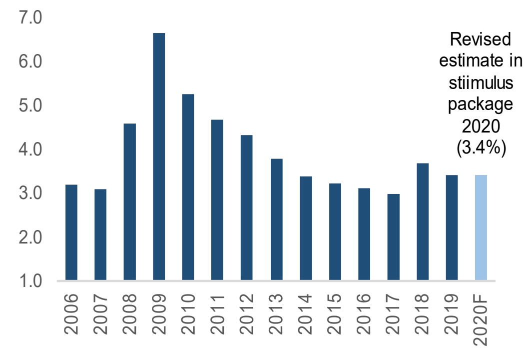
Chart 5: Malaysia's private investment growth



Sources: DOSM, CEIC

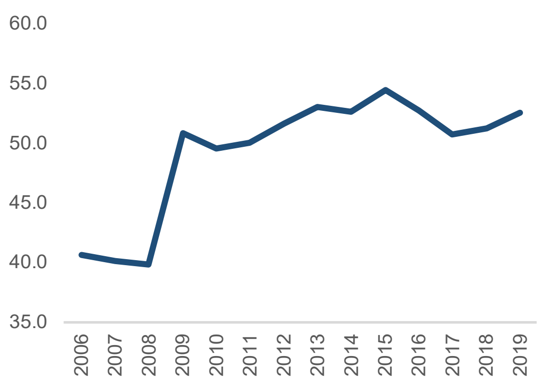
Financial implications

Chart 6: Malaysia's fiscal deficit to GDP since 2006



Sources: BNM, CEIC, MARC Economic Research

Chart 7: Malaysia's government debt to GDP since 2006



Sources: BNM, CEIC, MARC Economic Research

- We deem Malaysia's fiscal expansion prudent and necessary to support headline growth at a time when the global economy is being affected by a 'Black Swan' event. Many Asian economies – China, Thailand, Singapore to name a few – have already introduced expansionary fiscal measures.
- As such, we do not think the expected increase in Malaysia's budget deficit to 3.4% of GDP from the earlier projection of 3.2% to trigger a downgrade in rating outlook or sovereign rating awarded by international rating agencies.
- Save for 2018, Malaysia's fiscal deficit had been falling in the post-GFC period. In any case, the expected budget deficit of 3.4% of GDP in 2020 is considerably lower than 2009's deficit of 6.7% following the implementation of a stimulus package to counter the GFC.
- Although having limited fiscal space, we believe Malaysia can finance the deficit. In 2019, Malaysia's debt comprising Malaysian Government Securities, Government Investment Issuance and Malaysian Islamic Treasury Bills came in below 50% of GDP, compared with its self-imposed cap of 55% of GDP.

A comparison

Stimulus Package 2020

In response to COVID-19 outbreak

Size: RM20 billion
(direct fiscal injection: RM3.5 billion)

Revised fiscal deficit forecast for 2020: 3.4% of GDP

Government debt-to-GDP in 2019: 52.5% of GDP

Stimulus Package 2009

In response to GFC 2008-2009

Size: RM60 billion
(direct fiscal injection: RM22 billion)

Fiscal deficit rose to 6.7% of GDP in 2009 from 4.6% in 2008

Government debt-to-GDP in 2009: 50.8% of GDP

Measures under Stimulus Package 2020

Strategy 1: Mitigating the impact of COVID-19

Easing cash flow of affected businesses

- Allow deferment of monthly income tax instalment payments for the tourism sector
- 15% discount in monthly electricity bills of hotels, travel agencies, airlines, shopping malls, conventions and exhibition centres
- Exemption of Human Resource Development Fund (HRDF) levies for hotels and travel related companies
- Exemption of the 6% service tax for hotels (March 2020 - August 2020)
- BNM to provide a Special Relief Facility worth RM2 billion to SMEs at an interest rate of 3.75%
- Bank Simpanan Nasional (BSN) to allocate RM200 million in microcredit facility at an interest rate of 4%
- All banks are required to provide financial relief in the form of a payment moratorium comprising restructuring and rescheduling loans for affected businesses and individuals. 100% stamp duty exemptions on such loan agreements
- Encourage hotels to offer discounts and shopping malls to reduce rentals
- Malaysia Airport Holdings Bhd (MAHB) to provide rebates on rentals, landing and parking charges
- Companies that provide employees with disposable Personal Protective Equipment (PPE) are eligible for tax deduction. Whereas, expenses for non-disposable PPE products can be claimed as capital allowance

Stimulating domestic tourism sector

- Personal income tax relief of up to RM1,000 on expenditure related to domestic tourism
- To provide additional matching grants for tourism promotions, and digital vouchers of up to RM100 per person for domestic flights, rails, and hotel accommodations. RM500 million will be allocated for these
- Relaxation of existing guidelines limiting use of hotels by government agencies
- Eligibility period for the purchase of duty-free goods by tourists or individuals entering Malaysia to be reduced from 72 hours to 48 hours and the threshold for duty-free goods to be increased to RM1,000 from RM500 starting 1 April 2020

Human capital development

- Double deduction on expenses incurred on approved tourism-related training
- RM100 million to HRDF to fund additional 40,000 employees from tourism and affected sectors
- RM50 million to subsidise short courses in digital skills and highly skilled courses
- RM20 million to fund short courses conducted by the 13 state skills development centres (SSDC)
- Encourage public training institutions to conduct short courses in collaboration with industry
- Employment Insurance System (EIS) to increase claimable training cost to RM6,000 from RM4,000 for the affected sectors
- Training allowance of RM30 per day to be provided to trainees under EIS

Assistance for affected individuals

- One-off payment of RM600 to taxi drivers, tourist bus drivers, tourist guides and registered trishaw drivers
- Monthly allowance of RM400 for medical doctors and other medical personnel, RM200 for immigration and front-line staff from February 2020 – end of pandemic

Strategy 2: Spurring rakyat-centric economic growth

Assistance for rakyat

- Minimum employee contribution to EPF to be reduced from 11% to 7% on a voluntary basis from April 2020 – December 2020
- RM200 to BSH recipients scheduled for May 2020 to be brought forward to March 2020
- Additional RM100 to be paid to all BSH recipients in May 2020
- Additional RM50 to be channelled through e-tunai
- BNM to provide agrofood facility of RM1.0 billion at an interest cost of 3.75%
- RM40 million allocation to SMEs involved in agriculture and food production
- Grants of RM1,000 to 10,000 entrepreneurs to promote products on e-commerce platforms
- Allocation of RM20 million to Malaysian Digital Economy Corporation (MDEC) to transform Pusat Internet Desa into e-commerce hubs

Rural stimulus

- RM2 billion for the immediate implementation of infrastructure repairs and project upgrades
- MOF to provide special relaxation on financial procedures for the projects:
  - i. increase procurement threshold value to RM100,000 from RM50,000 for balloting and RM800,000 from RM500,000 for quotations; and
  - ii. ensure Ministries channel sufficient allocations to respective implementing agencies by 1Q2020

Strategy 3: Promoting quality investments

- Ensure allocations for development projects are channelled to implementing agencies by 1Q2020
- Regulatory agencies to promote public-private partnership and private investments (Ministry of Energy, Science, Technology, Environment and Climate Change will open bids in 2020, a quota of 1,400 MW of solar power generation)
- Statutory bodies to accelerate planned investments (Malaysian Communication and Multimedia Commission will spend an estimated RM3 billion on works relating to the National Fiberisation and Connective Programme)
- Government-linked companies (GLCs) to focus on accelerating capex (Tenaga Nasional Berhad to spend RM13 billion on installation of LED street lighting, transmission lines and rooftop solar installations)
- Co-investment fund of RM500 million for investment in early-stage and growth-stage Malaysian companies
- Waiving of listing fees by Securities Commission and Bursa Malaysia for one year, for companies seeking listing on Leading Entrepreneur Accelerator or Access, Certainty, Efficiency, and market (only for companies with market capitalisation of less than RM500 million)
- BNM to provide an SME Automation & Digitalisation Facility of RM300 million at an interest cost of 3.75%
- Accelerated capital allowances over two years on expenses on machinery and equipment including ICT
- Tax deduction of up to RM300,000 on renovation and refurbishment expenses
- Import duty and sales tax exemption on importation or local purchase of machinery and equipment used in port operations for three years commencing April 1, 2020

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MALAYSIAN RATING CORPORATION BERHAD
199501035601 (364803-V)
19-07, 19th Floor, Q Sentral, 2A Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 KUALA LUMPUR
Tel.: +603 2717 2900 Fax: +603 2717 2910 E-mail: marc@marc.com.my
Homepage: www.marc.com.my