Economic Research

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The Movement Control Order & PRIHATIN Rakyat Economic Stimulus Package 2020

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30 March 2020

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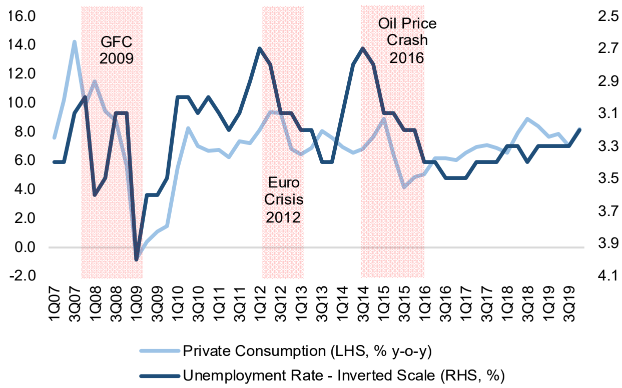
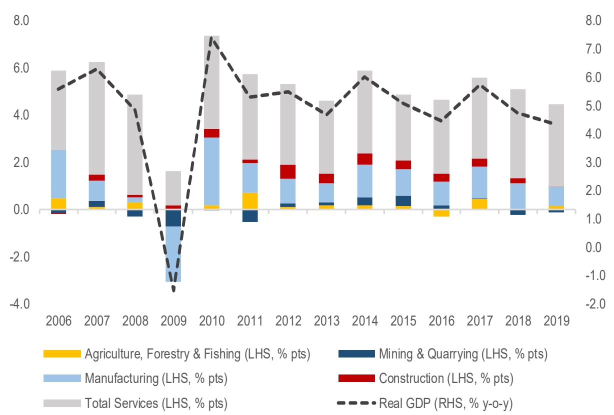
Impact of the Movement Control Order (MCO)

Chart 1: Private consumption growth and unemployment rate



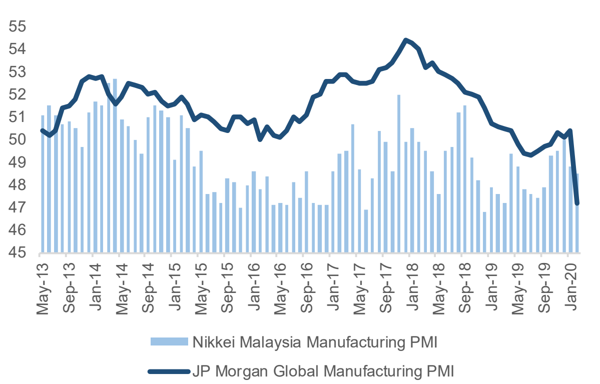
Sources: Department of Statistics Malaysia (DOSM), CEIC, MARC Economic Research

Chart 2: GDP growth by industry



Sources: DOSM, CEIC, MARC Economic Research

Chart 3: Nikkei Malaysia Manufacturing PMI and JP Morgan Global Manufacturing PMI

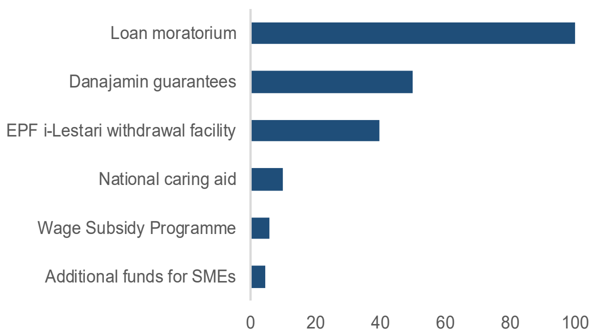


Sources: Bloomberg, MARC Economic Research

- The MCO, introduced on 18 March, has inevitably caused a pause in economic activities, resulting in a spike in the jobless rate in Malaysia. Workers in hard-hit industries such as tourism, retail, travel and manufacturing face a higher risk of retrenchment. The Malaysian Institute of Economic Research (MIER), in its latest study, expects 2.4 million Malaysians to lose their jobs with the extension of the MCO. The rise in unemployment could also indicate large income losses for workers, with household incomes likely to decline by 12%, according to the study.
- The MCO, which has been extended from the initial two weeks to four weeks (March 18th – April 14th, 2020) is necessary as the number of coronavirus disease (COVID-19) cases in Malaysia has risen from 553 pre-MCO to a total of 2,470 as at March 29th, 2020. The economic standstill from the extended MCO would inevitably exert a downward pressure on Malaysia's economic growth in 1Q2020 and 2Q2020.
- Limited economic activities during the MCO has caused supply-side disruptions, particularly to service sectors that operate in the retail, hospitality, F&B, and tourism-related industries. Shopping malls, for example, have suffered a dramatic drop in foot traffic although the manufacturing sector has received some respite as some firms are allowed to operate during the MCO. According to the latest data by the Ministry of International Trade and Industry (MITI), 29.4% or 2,732 of the appeals received from manufacturing firms were approved by MITI to resume operations. Meanwhile, it is business as usual for the agricultural sector to ensure the country has adequate food supply during this difficult time.
- The increased cost of doing business during the MCO is expected to cause a short-term surge in producer prices akin to the one seen in 2016 and 2017 after the oil price collapse. This would translate to a temporary cost-push inflationary pressure as producers engage either in partial or full transfer pricing to preserve margins.

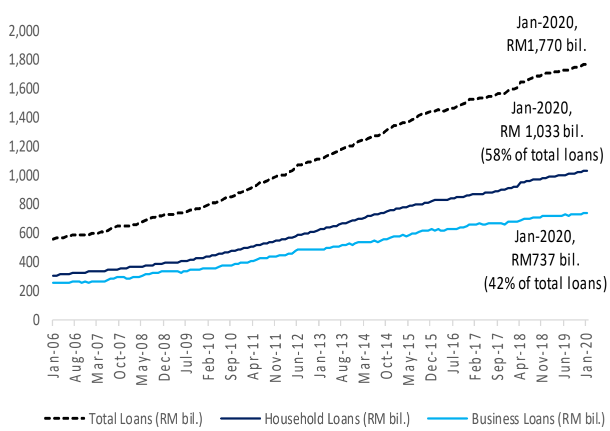
PRIHATIN Rakyat Economic Stimulus Package: Scope and Aim

Chart 4: Size of selected measures in PRIHATIN (RM billion)



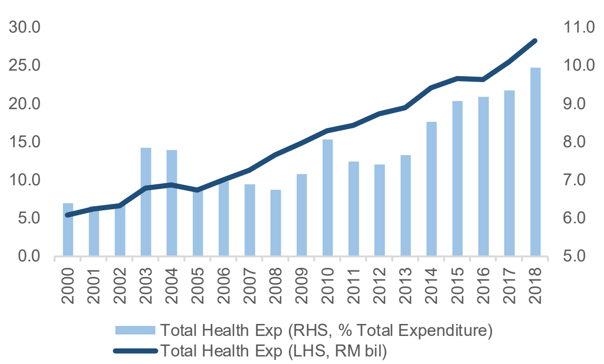
Sources: Prime Minister's Office of Malaysia (PMO), MARC Economic Research

Chart 5: Size of loans in the banking system



Sources: BNM, MARC Economic Research

Chart 6: Government expenditure on healthcare

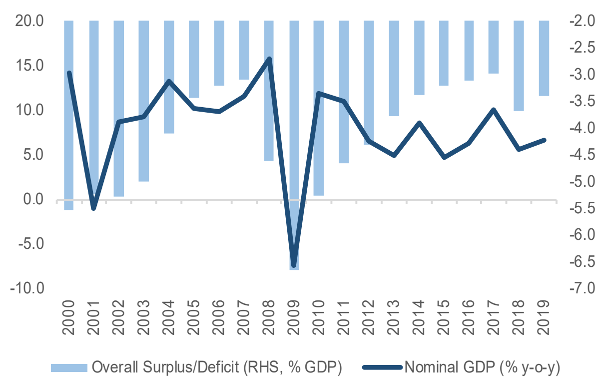


Sources: Ministry of Finance (MoF), CEIC, MARC Economic Research

- The scope and aim of the Prihatin Rakyat Economic Stimulus Package (PRIHATIN) is somewhat different from that of the Economic Stimulus Package (ESP) 2020 announced on 27 February. PRIHATIN is *rakyat*-centric and mainly focused on the M40 and B40 families. The ESP 2020, on the other hand, is primarily focused on aiding tourism and tourism-related businesses affected by the COVID-19 outbreak, as well as individuals employed in those businesses.
- The total package amounted to RM250 billion (17% of GDP), of which RM25 billion (10% of PRIHATIN) comes from a direct fiscal injection. A big chunk comes from loan moratoriums (RM100 billion or 40%) which would relieve individuals and businesses from their monthly loan repayments for six months. Another significant component comes from withdrawals from the Employees Provident Fund (EPF) (RM40 billion or 16% of PRIHATIN).
- One of the top priorities of PRIHATIN is curbing the COVID-19 outbreak. For this, the government has set aside RM500 million (0.2%) for the Ministry of Health. It will also allocate RM1 billion (0.4%) for the purchase of equipment and services. Given the unprecedented health security threat facing Malaysia, we see this spending as justified.
- Given the pressure businesses are facing during the MCO, the government has introduced several measures to mitigate the resultant economic and financial impact. The RM5.9 billion (2.4% of PRIHATIN) wage subsidy programme, for example, will encourage continued production of goods and services by firms that have suffered more than 50% income losses since the start of 2020. Another, which exempts contributions by employers to the Human Resource Development Fund (HRDF) for six months, would help relieve pressure on cash flows.
- There are measures to mitigate the economic and financial impact on the M40 and B40 families given that they are more susceptible to job and income losses. The RM10 billion (4% of PRIHATIN) in handouts for them and the wage subsidy programme are commendable as these will not only help protect the vulnerable but also boost private consumption.
- Overall, we view the additional assistance to the *rakyat* as critical as it can help cushion the drop in private consumption, Malaysia's major pillar of growth. History shows that it is critical to support private consumption during an economic downturn.

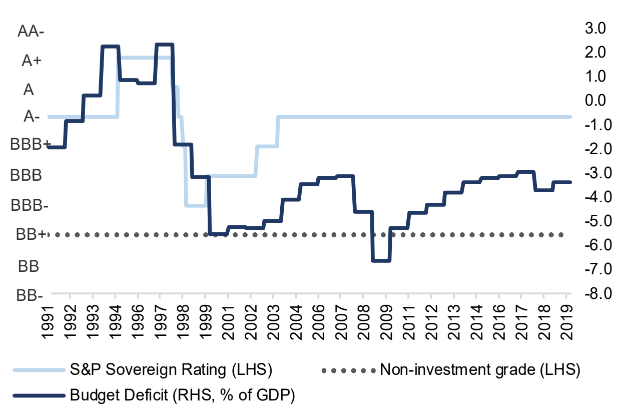
Prihatin Rakyat Economic Stimulus Package: Impact

Chart 7: GDP growth and fiscal deficit



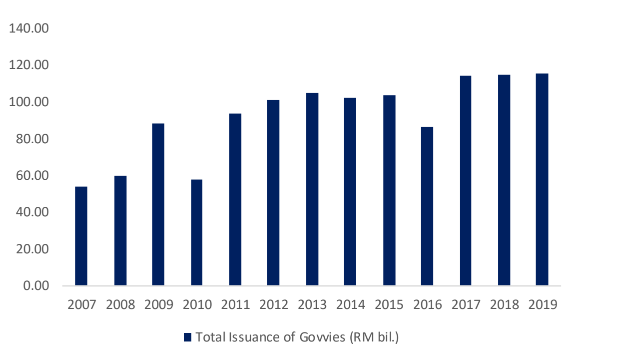
Sources: DOSM, Bank Negara Malaysia (BNM), CEIC, MARC Economic Research

Chart 8: Fiscal deficit and sovereign credit rating



Sources: S&P Global Ratings, BNM, CEIC, MARC Economic Research

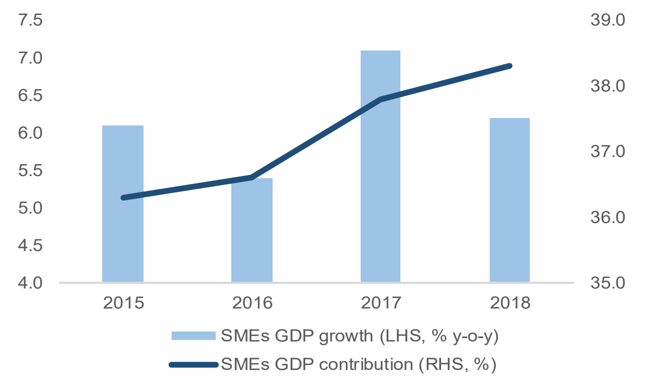
Chart 9: Gross issuance of government bonds



** include Malaysian Government Securities (MGS) and Government Investment Issues (GII)*
Sources: DOSM, BNM, CEIC, MARC Economic Research

- Given the wider scope of assistance provided to the *rakyat* and businesses, we are now projecting a larger budget deficit by one to two percentage points (pp) higher than the recent estimate of 3.4% of GDP in 2020. Our estimate takes into account the lower-than-projected crude oil prices of USD62 per barrel for this year (USD25 per barrel as of time of writing). We think the government has some room to finance this, partly through debt issuances as there is another six-pp leeway before it hits the self-imposed 55% of GDP limit. In addition, deficits could be financed through one-off dividends from government-linked companies (GLCs) and reallocations of some of expenditures previously planned for other purposes (e.g. tourism activities).
- While budget deficits will widen in 2020, we do not think that the worsening fiscal and debt metrics will trigger negative rating actions by global credit rating agencies (Malaysia's fiscal deficit: 3.4% of GDP; A-rated countries: 1.1% of GDP; Malaysia's general government debt: 55.6% of GDP; A-rated countries: 48.9% of GDP). This is because drastic times require drastic measures; a responsible government will take the necessary steps to ensure that the country avoids the potential collapse of its health system, and consequently its economy and financial system.
- In addition, Malaysia's deficits are mainly financed by domestic resources. Also, history shows that during the last recession in 2009, Malaysia's sovereign rating was unaffected although its budget deficit surged to 6.7% of GDP from 4.6% the previous year.
- We understand the government's budget limitations in addressing concerns among businesses. Singapore's measures to assist its businesses are not relevant comparisons due to the city state's stronger fiscal position. Singapore recorded an average fiscal surplus of 0.9% of GDP in the past three years (Malaysia: -3.3% of GDP). However, the perceived insufficient support for small and medium-sized enterperises (SMEs) could be re-looked as SMEs form the bulk of Malaysian businesses, accounting for 98% of total businesses.

Chart 10: Performance of SMEs



Sources: DOSM, MARC Economic Research

- We applaud the government's proposal to implement the wage subsidy programme to help struggling businesses. Notwithstanding this, we feel that additional support for businesses would help sustain their cash flows and retain employees. For instance, the government could consider an extension for the deferment of income tax instalments for all SMEs until December 2020. This is because the current supply chain disruptions in the economy will likely impact businesses for a longer time frame than what is currently anticipated and SMEs, being the backbone of businesses in Malaysia, are financially fragile.

- We also feel positive about the financing facilities offered in the stimulus package. However, these facilities will mostly benefit micro-entrepreneurs which employ a small number of employees. Capital-intensive SMEs face greater difficulty in resuming their businesses and maintaining their large pool of workers.

- As the government is facing a tight fiscal situation, it could use some support from the private sector. Note that the RM100 billion worth of loan moratoriums will only defer the burden shouldered by businesses. As such, the private sector, especially financial institutions, could play a role in ensuring businesses remain viable in the medium term. For example, more assistance through special funds could be provided by financial institutions to SMEs with good prospects to help them through this turbulent time.

- Assistance could also be granted to the informal sector in which employees are paid daily or are on short-term employment contracts. They do not have access to financing and do not benefit much from the voluntary EPF withdrawals as they have little or no EPF savings. Employment within the the informal sector comprised about 9.4% of total employment, according to DOSM's study conducted in 2017.

- In addition, measures to ensure the MCO does not contribute to existing problems in supply chains could also be introduced. We believe price monitoring alone, to ensure price stability is insufficient, as this would only further distort the market for essential food items. For example, there have been reports in recent days of the MCO affecting vegetable farmers and fishermen because of supply chain disruptions. The country's food distribution network, for instance, can be enhanced through special online networks (similar to hypermarkets' online services). This could relieve the pressure on food prices.

- Going forward, we feel that incurring even larger budget deficits is necessary if the economy needs a further boost. This is because the current global economy is very different compared to the 2008-2009 Global Financial Crisis (GFC). The whole world is under pressure due to the global lockdown. International trade, which an open economy like Malaysia is reliant upon, will be materially affected. With disruptions in global supply chains, it will take longer for industries to resume operations even after the pandemic is over.

- In summary, PRIHATIN is a more comprehensive, *rakyat*-centric package meant to mitigate the impact of the COVID-19 outbreak which is increasingly being felt nationwide across all sectors and divides. It also serves to complement the ESP announced earlier in February.

- If the economic condition worsens, more measures should be introduced. This time, the focus should be on supporting private sector businesses because the COVID-19 outbreak is not likely to be a short-term phenomenon. In any case, we think it is also important to ensure proper implementation of PRIHATIN and any subsequent economic packages. This is because unsuccessful outcomes will lead to massive insolvencies, retrenchments and income losses, with dire socioeconomic implications at the national, employer, and household levels.

Appendix I: Tables

Table 1: Summary of fiscal position

	2015		2016		2017		2018		2019P*		5-year average	
	RM bn	% of GDP	RM bn	% of GDP	RM bn	% of GDP	RM bn	% of GDP	RM bn	% of GDP	RM bn	% of GDP
Total revenue	219.1	18.9	212.4	17.3	220.4	16.3	232.9	16.1	264.4	17.5	229.8	17.2
Direct tax revenue	111.8	9.7	109.6	8.9	116.0	8.6	130.0	9.0	134.7	8.9	120.4	9.0
Indirect tax revenue	53.7	4.6	59.7	4.9	61.6	4.6	44.0	3.0	34.0	2.3	50.6	3.9
Non-tax revenue	53.6	4.6	43.1	3.5	42.7	3.2	58.8	4.1	63.3	4.2	52.3	3.9
Total expenditure	256.3	22.1	250.8	20.4	260.7	19.3	286.3	19.8	315.9	20.9	274.0	20.5
OPEX	217.0	18.7	210.2	17.1	217.7	16.1	231.0	16.0	263.3	17.4	227.8	17.1
DE	39.3	3.4	40.6	3.3	43.0	3.2	55.3	3.8	52.6	3.5	46.2	3.4
Overall balance	-37.2	-3.2	-38.4	-3.1	-40.3	-3.0	-53.4	-3.7	-51.5	-3.4	-44.2	-3.3

**Preliminary figures*
Sources: DOSM, MoF, CEIC, MARC Economic Research

Table 2: Federal government revenue

	2014		2015		2016		2017		2018		5-year average	
	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y
Tax revenue	164.2	5.3	165.4	0.8	169.3	2.4	177.7	4.9	174.1	-2.0	170.1	2.3
Direct tax revenue	126.7	5.2	111.8	-11.8	109.6	-1.9	116.0	5.9	130.0	12.1	118.8	1.9
Corporate	65.2	12.1	63.7	-2.4	63.6	-0.1	64.5	1.3	66.5	3.1	64.7	2.8
Individual	24.4	5.9	26.3	7.8	27.6	4.7	28.9	5.0	32.6	12.6	28.0	7.2
Petroleum	27.0	-9.4	11.6	-57.1	8.4	-27.1	11.8	39.7	20.1	70.7	15.8	3.3
Indirect tax revenue	37.5	5.7	53.7	43.3	59.7	11.3	61.6	3.2	44.0	-28.6	51.3	7.0
GST/SST	17.2	7.5	35.3	104.9	41.4	17.4	44.4	7.1	25.7	-42.1	32.8	19.0
Excise duties	12.9	6.0	11.9	-8.0	11.7	-1.6	10.1	-13.6	10.8	6.6	11.5	-2.1
Import duty	2.7	5.8	2.7	2.3	2.9	6.4	2.8	-4.2	2.9	3.3	2.8	2.7
Export duty	1.9	-1.9	1.0	-45.1	1.0	-5.7	1.4	38.3	1.7	27.3	1.4	2.6
Non-tax revenue	56.4	-1.0	53.6	-4.9	43.1	-19.7	42.7	-0.8	58.8	37.6	50.9	2.2
Licences and permits	7.7	6.8	7.4	-4.2	8.6	16.9	8.4	-3.3	8.8	5.7	8.2	4.4
Investment income	33.8	-4.4	32.8	-2.7	21.4	-34.8	21.6	1.0	31.9	47.4	28.3	1.3
Petroleum royalty	6.5	5.6	5.1	-21.3	3.7	-28.8	4.4	20.6	5.2	17.4	5.0	-1.3
Total revenue	220.6	3.4	219.1	-0.7	212.4	-3.0	220.4	3.8	232.9	5.7	221.1	1.8

Sources: MoF, CEIC, MARC Economic Research

Table 3: Federal government OPEX by component

	2014		2015		2016		2017		2018		5-year average	
	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y
Emoluments	66.9	9.7	70.1	4.6	73.1	4.4	77.0	5.4	80.0	3.8	73.4	5.6
Pension and Gratuities	18.2	22.7	18.9	3.6	21.0	11.4	22.8	8.4	25.2	10.4	21.2	11.3
Debt service charges	22.6	8.7	24.3	7.5	26.5	9.0	27.9	5.2	30.5	9.6	26.4	8.0
Supplies and services	34.3	1.2	36.4	6.2	30.1	-17.3	34.7	15.5	35.3	1.6	34.1	1.4
Subsidies	39.7	-8.4	27.3	-31.3	24.7	-9.5	22.4	-9.5	27.5	23.1	28.3	-7.1
Asset acquisition	1.8	27.4	1.7	-4.4	0.7	-60.8	0.5	-23.7	0.4	-13.3	1.0	-15.0
Grants and transfers	34.6	-0.6	37.3	7.9	33.2	-11.0	31.3	-5.6	30.9	-1.4	33.5	-2.1
Others	1.5	20.5	1.1	-25.3	0.9	-17.6	1.0	13.8	1.1	5.5	1.1	-0.6
Total OPEX	219.6	3.9	217.0	-1.2	210.2	-3.1	217.7	3.6	231.0	6.1	219.1	1.9

Sources: MoF, CEIC, MARC Economic Research

Table 4: Federal government DE by sector

	2014		2015		2016		2017		2018		5-year average	
	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y	RM bn	% y-o-y
Economic	23.3	-5.3	23.3	-0.2	25.1	7.8	24.2	-3.7	36.1	49.3	26.4	9.6
Agriculture and rural development	2.9	6.8	3.1	8.0	2.9	-6.5	2.2	-23.5	2.1	-3.9	2.6	-3.8
Trade and industry	4.7	-24.9	5.6	20.3	4.8	-14.1	3.8	-21.5	2.5	-33.9	4.3	-14.8
Transport	7.3	-10.8	6.7	-7.9	7.8	16.9	10.4	33.2	17.0	63.0	9.8	18.9
Public utilities	3.5	4.6	3.6	4.4	2.9	-19.5	2.5	-15.4	2.3	-8.9	3.0	-7.0
Others	5.0	18.8	4.2	-16.1	6.6	57.1	5.3	-20.5	12.2	131.8	6.7	34.2
Social	10.5	-3.6	11.2	6.4	10.4	-6.6	12.4	19.1	12.9	3.6	11.5	3.8
Education	4.9	-23.5	4.8	-3.4	3.7	-21.7	6.3	69.2	6.5	3.2	5.2	4.8
Health	1.4	-20.4	1.4	4.2	1.5	3.7	1.5	-1.7	1.8	20.6	1.5	1.3
Housing	0.6	-27.4	2.0	224.6	2.2	11.5	0.8	-64.9	1.3	63.7	1.4	41.5
Social and community	3.6	91.8	3.0	-17.1	3.0	0.5	3.9	30.2	3.3	-14.3	3.3	18.2
Defence and security	4.3	-6.8	4.8	9.7	4.8	1.7	5.3	10.4	4.9	-7.6	4.8	1.5
General administration	1.3	-33.9	1.6	16.6	1.6	3.4	2.9	81.4	2.2	-25.5	1.9	8.4
Total DE	39.5	-6.4	40.8	3.2	42.0	3.0	44.9	6.9	56.1	25.0	44.7	6.3

Sources: MoF, CEIC, MARC Economic Research

Appendix II: Summary of measures

ECONOMIC STIMULUS PACKAGES IN 2020	RM billion
Economic Stimulus Package - Announced on 27 February 2020	**20**
People's Economic Stimulus Package - Announced on 27 March 2020	**230**
I. Preserving the *rakyat*'s welfare	**128**
Health • RM500 million allocated to the Ministry of Health (MOH) • RM1 billion allocated to the MOH for the purchase of equipment and services • The insurance and takaful industry to set up a RM8 million fund to cover cost of screening • 3-month suspension on premiums for family takaful and insurance policy holders • Higher special allowance for healthcare workers of RM600 per month from RM400 per month effective 1 April 2020 until the outbreak ends • A special allowance of RM200 a month extended to military, police, customs, civil defence and RELA members involved in enforcing the MCO • Expanded MySalam coverage to quarantined B40 patients under investigation (PUI)	
National Caring Aid • RM1,600 to households earning less than RM4,000 a month • RM1,000 to households earning between RM4,000 and RM8,000 a month • RM800 to single individuals aged 21 and above, earning less than RM2,000 a month • RM500 to single individuals aged 21 and above, earning between RM2,000 and RM4,000 a month	
Other assistance • RM200 to students of higher learning institutions • Food assistance, healthcare and shelter to vulnerable groups • RM500 to e-hailing drivers	
Skills Development Fund Corporation (PTPK) • Deferred loan repayments for borrowers for 6 months	
Private Retirement Scheme (PRS) • Withdrawals up to RM1,500 without penalty	
Support for urban B40 group • Rental exemption extended to 6 months for people living in *Projek Perumahan Rakyat* (PPR) • 6-month moratorium extended to rent-to-own (RTO) PPR homes • 6-month lease exemption on all premises owned by the Federal Government	
Electricity subsidy • Allocation increased to RM530 million from RM500 million to introduce a tiered discount with rates ranging between 15% and 50% with a maximum limit of 600kW per month	
Telecommunication and multimedia • Free internet with a value of RM600 million starting on 1 April 2020 until the MCO ends • RM400 million to improve infrastructure	
Civil service • RM500 to civil servants of grade 56 and below • RM500 to government pensioners	
Food security • RM1 billion allocation for Food Security Fund • RM100 million for the development of infrastructure for food storage and distribution as well as crop integration programmes • RM64.4 million to each viable farmers' and fishermen's association	
Wage subsidy • Salary of RM600 per month to every employee earning less than RM4,000 and employers experiencing more than a 50% decrease in their income since 1 January 2020 for 3 months	

ECONOMIC STIMULUS PACKAGES IN 2020	RM billion
Service contractors • The government will bear the salaries of workers involved in contract services such as cleaning and supplying food in schools, public higher learning and training institutions as well as other government agencies.	
II. Supporting businesses	**100**
Loan moratorium • BNM's 6-month moratorium will be extended to loans from TEKUN, MARA and cooperatives as well as other government agencies providing financing to SMEs	
SMEs and micro-entrepreneurs • Additional funds of RM3 billion under the Special Relief Facility (SRF) • Additional funds of RM1 billion under the All Economic Sector Facility • Additional funds of RM500 million under the Micro Credit Scheme • BizMula-i and BizWanita-i schemes for SMEs with business records of less than 4 years • Syarikat Jaminan Pembiayaan Perniagaan (SJPP) will provide RM5 billion worth of guarantees for SMEs that face difficulties in obtaining loans	
Cash flow constraints • Deferred payments, restructuring and rescheduling of employer contributions to the EPF • Exempted payment on HRDF levy for all sectors for six months • Postponement of income tax instalment payments to all SMEs for a period of 3 months	
Danajamin • Provide guarantee facilities of up to RM50 billion for working capital loans	
III. Strengthening the economy	**2**
Domestic investment • RM2.0 billion allocated to improve roads, upgrade dilapidated schools in Sabah and Sarawak, cleaning houses of worship and police stations as well as upgrading tourism facilities that will benefit contractors class G1 to G4.	

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