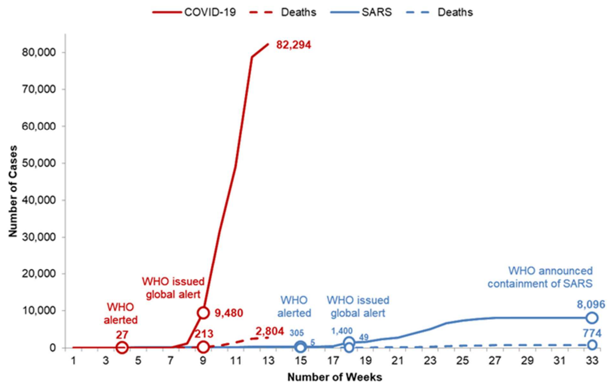
COVID-19: Economic Stimulus Package

1.3% of GDP set aside, 2020 GDP forecast revised down to 3.2-4.2%

- **Despite the ongoing political turmoil, the government managed to stick with its schedule of announcing the stimulus package to mitigate the adverse impact from the COVID-19 epidemic yesterday.**
  - Sufficient amount: Amounting to RM20.0b or 1.3% of GDP, the package exceeds house expectation of RM10.0-15.0b and the stimulus injected during the 2003 SARS outbreak (RM7.3b or 2.0% of GDP).
  - Swift action: Stimulus package is announced one month after the first reported case in Malaysia, earlier than during the SARS outbreak (two months).

Graph 1: Cumulative Cases Globally



Source: Kenanga Research

- **Package is anchored on three strategies, specifically to mitigate impact of COVID-19, spur people-centric economic growth and promote quality investments.**
  - Mitigate impact of COVID-19:
    - Ease cash flow of affected businesses: policies are temporary in nature (Apr-Sep 2020) and emphasise on non-monetary measures (e.g. tax breaks, discount in electricity bills, HRDF levy exemption), avoiding further constraints on the public sector cash flow. Measures are also targeted towards SMEs, which account for 98.5% of business establishments and over 66% of employment in Malaysia, to ensure that they are able to withstand the economic slowdown and retain employees.
    - Assist affected individuals: aimed at securing and lifting disposable income among others through one-off payment to taxi drivers and allowance for front-line workers. During the low business period, productive business expenditures (e.g. upskill and reskill employees) to tackle longstanding structural issues such as low labour productivity are also incentivised.
    - Stimulate demand for tourism: focused on enhancing domestic tourism through personal income tax relief, digital vouchers and matching grants for tourism promotion.
  - Spur people-centric economic growth:
    - Policies aimed at helping non-tourism sectors, which are affected through the supply-chain disruptions, by expediting public infrastructure projects and encouraging domestic consumption, among others via employees' EPF contribution reduction and additional payout of RM150 for Bantuan Sara Hidup recipients.
  - Promote quality investments:
    - Accelerate public and GLC investment projects and promote higher value-added private sector investments through co-investment funds, digitalisation facilities and various others.

Table 1: COVID-19 Stimulus Package Size

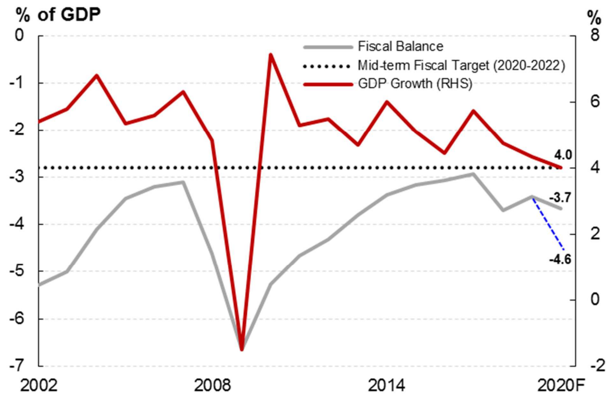
Country	% of GDP
Hong Kong	4.2
Malaysia	**1.3**
Singapore	1.3
Taiwan	0.3
Indonesia	0.1

Source: Kenanga Research

- **The MoF projects fiscal deficit to widen slightly to 3.4% of GDP, undershooting its initial 2020 target of 3.2%.**
  - Deficit: Based on our calculation the fiscal deficit could expand to as high as 4.6% of GDP (MOF: 3.4%). This is wider than our estimate of 3.7% of GDP after we revised our GDP growth forecast to 4.0% from 4.3%. We have maintained our average oil price assumption of around USD60/barrel (2020 budget assumption: USD62/barrel), and no change to the projected revenue growth.
  - Sovereign debt rating: A fiscal deficit deterioration of such magnitude may trigger a sovereign rating reassessment or even cause a downgrade. However, the likelihood of a downgrade is minimal as we reckon rating agencies would see this as an exceptional situation. Nevertheless, Moody's has warned of a downside risks to Malaysia's credit profile due to the current political turmoil. It immediately lowered Malaysia's short term political risk score to 69.8 (out of 100) from 72.5 previously, to reflect the risks to social stability, policymaking and policy continuity.

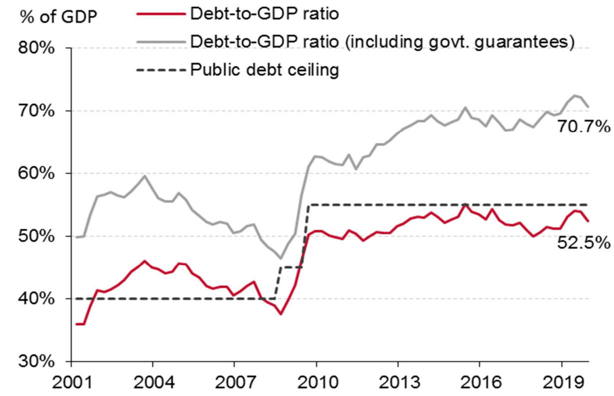
- Debt-to-GDP ratio: To rise to 54.8% of GDP (2019: 52.5%) as the government may issue bonds to partly finance the deficit. However, the debt-to-GDP ratio remains slightly below the government's self-imposed debt threshold of 55.0%.
- GDP growth: While the government has announced its new GDP growth target for 2020 of between 3.2% to 4.2% (2019: 4.3%) from 4.8%, we reiterate our expectation of a growth slowdown to 4.0% in 2020 on delayed global economic recovery, dragged by the COVID-19 outbreak which is now at risk of turning into a pandemic, impacting the services and manufacturing sectors via the extensive value supply chain. Another factor that could weigh on economic growth is the political uncertainty which is expected to have a negative impact on investors' and consumers' sentiment.
- OPR: Against a backdrop of depressed growth outlook and amidst subdued inflationary pressure, we foresee the BNM to embark on another 25 basis points rate cut as early as next week, bringing the Overnight Policy Rate to 2.50%.

Graph 2: Fiscal Balance Vs GDP Projection



Source: Kenanga Research

Graph 3: Debt-to-GDP Ratio Trend



Source: Kenanga Research

Table 2: COVID-19 2020 Economic Stimulus Package

Strategy	Measures
Strategy I: Mitigating Impact of Covid-19	Deferment of monthly income tax instalment payments for businesses in the tourism sector. In addition, companies affected by the COVID-19 to be allowed to revise their profit estimates for 2020 with respect to monthly income tax instalment payments without penalty
	15% discount in monthly electricity bills to hotels, travel agencies, airlines, shopping malls, conventions and exhibitions centres
	Exemption on Human Resource Development Fund (HRDF) levies for hotels and travel related companies
	Exemption on 6% service tax for hotels from March to August 2020
	Bank Negara Malaysia (BNM) will provide a Special Relief facility worth RM2 billion, particularly in the form of working capital for Small Medium Enterprises (SMEs) at an interest rate of 3.75%
	Bank Simpanan Nasional (BSN) will allocate a RM200 million in microcredit facility offering an interest rate of 4% to affected businesses. In addition, the approval process for existing loan funds will be further streamlined such as Bank Pembangunan's Tourism Infrastructure Fund of RM1.5 billion
	Malaysia Airport Holdings Berhad (MAHB) will provide rebates on rental for premises at the airport as well as landing and parking charges
	A one-off payment of RM600 each to taxi drivers, tourist bus drivers, tourist guides and registered trishaw drivers
	Special monthly critical allowance of RM400 for medical doctors and other medical personnel, as well as RM200 for immigration and related front line staff commencing February 2020 until the end of pandemic for Government staff directly involved in the containment efforts
	Up to RM100 million on a matching grant basis to HRDF to fund an additional 40,000 employees from the tourism and other affected sectors
	RM50 million to subsidise short courses in digital skills and highly skilled courses. This incentive is expected to benefit 100,000 Malaysians
	EIS will increase the claimable training cost from RM4,000 to RM6,000 for the affected sectors. A daily training allowance of RM30 per day will also be provided to trainees under EIS
	Personal income tax relief of up to RM1,000 on expenditure related to domestic tourism
	Digital vouchers for domestic tourism of up to RM100 per person for domestic flights, rails and hotel accommodations for all Malaysians. Additional matching grants for tourism promotion will be provided (total allocation of RM500 million)
	Relaxation of existing guidelines limiting use of hotels by Government agencies as part of mitigating the reduced demand
Strategy II : Catalysing Rakyat Centric Economic Growth	Employees Provident Fund (EPF) contribution by employees will be reduced by 4% from 11% to 7% (optional), with effect from 1 April 2020 to 31 December 2020. This will potentially unlock up to RM10 billion worth of private consumption
	A payment of RM200 to all Bantuan Sara Hidup (BSH) recipients scheduled for May 2020 will be brought forward to March 2020
	Additional RM100 will be paid into the bank accounts of all BSH recipients in May 2020. Subsequently, an additional RM50 will be channelled in the form of e-tunai
	Agrofood facility of RM1 billion will be provided by BNM at an interest cost of 3.75% to promote food production activities to meet domestic and export demand
	RM10 million allocation to FAMA to provide food storage facilities to help reduce food prices
	Grants of RM1,000 to 10,000 local entrepreneurs to promote sale of their products on e-commerce platforms
	Allocation of RM20 million to Malaysian Digital Economy Corporation (MDEC) for Perkhidmatan e-Dagang Setempat (PeDAS) programme to transform Pusat Internet Desa into e-commerce hubs
	Additional RM2 billion for the immediate implementation of small infrastructure repair and upgrading projects nationwide especially in rural areas
	Ministry of Finance (MoF) will provide special relaxation on financial procedures for the year 2020

Strategy III: Promoting Quality Investments	Expedite tenders and implementation of development expenditure projects
	Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC) will open for bids quota of 1,400MW for solar power generation (to involve RM5 billion of private investments and generate 25,000 jobs)
	Malaysian Communications and Multimedia Commission (MCMC) will implement up to RM3 billion on works related to the National Fiberisation and Connectivity Plan (NFCP)
	TNB will invest RM13 billion in 2020, including accelerating projects such as LED street lights, transmission lines and rooftop solar installations
	A Co-Investment fund of RM500 million to be co-invested and matched by private investors on a ratio of at least 1 to 3 which will make the total funds amount to RM2 billion for investment in early-stage and growth-stage Malaysian companies
	Waiving of the listing fees by Securities Commission and Bursa Malaysia for one year, for companies seeking listing on Leading Entrepreneur Accelerator Platform (LEAP) or Access, Certainty, Efficiency (ACE) markets, as well as companies with market capitalisation of less than RM500 million seeking listing on the Main Market
	SME Automation & Digitalization Facility of RM300 million at an interest cost of 3.75% by BNM
	Accelerated capital allowances over a two-year period on expenses incurred on machinery and equipment including ICT
	Tax deduction of up to RM300,000 on renovation and refurbishment cost
	Import duty and sales tax exemption on importation or local purchase of machinery and equipment used in port operations for 3 years commencing 1 April 2020

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