COVID-19: National Recovery Plan

Four-phase strategy to exit the COVID-19 crisis

- **On June 15, Prime Minister Tan Sri Muhyiddin Yassin announced the National Recovery Plan, a phased exit strategy from the COVID-19 crisis and the Movement Control Order (MCO), which will be enacted from June to December 2021.**
  - The National Recovery Plan consists of four phases:
    - **Phase 1 (June):** The current implementation of the Full Movement Control Order (FMCO) with only essential services allowed to operate. This comes amid the high level of local COVID-19 cases, the critical state of the public healthcare system, and low vaccination rates. This phase began early June and has recently been extended to June 28.
    - **Phase 2 (July & August):** Social activities and movement will continue to be tightly controlled, with interstate travel prohibited, but economic activities will be opened up in stages by allowing up to 80.0% of workforce capacity. The list of sectors allowed to operate will be expanded and will include some manufacturing activities, such as cement to ensure the sustainability of construction, and retail activities such as electronics and computers to support those working from home.
    - **Phase 3 (September & October):** All sectors of the economy will be allowed to operate, including all manufacturing sectors, but some activities with a high-risk of spreading COVID-19 (e.g. pubs and spas) will still be prohibited. The economic sector will remain at 80.0% capacity, while social activities will be gradually expanded, and parliament will be allowed to convene.
    - **Phase 4 (November & December):** The final phase of the National Recovery Plan, which will see a full reopening of the economy. All economic sectors will be opened, more social activities will be permitted, as well as interstate travel and domestic tourism to be allowed.
  - The transition between each phase is subject to achieving substantive progress in three main thresholds: 1) the number of daily cases of COVID-19 infections; 2) the capacity of the healthcare system, based on the usage of beds in ICU wards; 3) the level of the population vaccinated, based on the percentage of people that have received two full doses of the vaccine.
  - The National Recovery Plan is long overdue to ensure Malaysia exit the pandemic speedily. Of importance is the fact that it takes into account both the daily average cases and percentage of the population vaccinated as the yardstick to measure progress. This will help ensure a long-term recovery by prioritising the attainment of national herd immunity, whilst also safeguarding public health at this juncture. Nevertheless, the economic impact of a sustained lockdown will be considerable, with Prime Minister Tan Sri Muhyiddin Yassin stating that the current MCO 3.0 is costing the country RM1.0b a day. However, the recent PEMERKASA+ fiscal package of RM40.0b and the goal to expand economic reopening as early as July, should help stem the adverse impact on Malaysia's economic recovery.

Table 1: National Recovery Plan

	Phase 1 (Jun)	Phase 2 (Jul & Aug)	Phase 3 (Sep & Oct)	Phase 4 (Nov & Dec)
	▪ Full Movement Control Order ▪ Only essential services allowed	▪ Expansion of economic sectors allowed to operate ▪ Social sector remains closed	▪ Most economic sectors allowed to operate ▪ Social sector gradually reopened	▪ Full reopening of the economy, including social sector and interstate travel
Thresholds needed to be met	▪ < 4,000 daily average cases ▪ Moderate level of ICU beds in use ▪ 10% population vaccinated	▪ < 2,000 daily average cases ▪ Sufficient level of ICU beds available ▪ 40% population vaccinated	▪ < 500 daily average cases ▪ Sufficient level of ICU beds available ▪ 60% population vaccinated	

Source: PMO

- **Rapid COVID-19 vaccination rollout is the key factor in Malaysia's reopening roadmap**

  – As of June 15, the Ministry of Health (MoH) reported that there is now a total of 667,876 positive cases and 4,069 deaths with more than 57.0% or 2,347 deaths recorded since the implementation of MCO 3.0 on May 12. Even though the number of new and active COVID-19 cases continue to recede in the past week, the nation is still not out of the woods yet as the 7-day average COVID-19 positivity rate is still high at 6.6%, well above the World Health Organisation threshold of 5.0%.

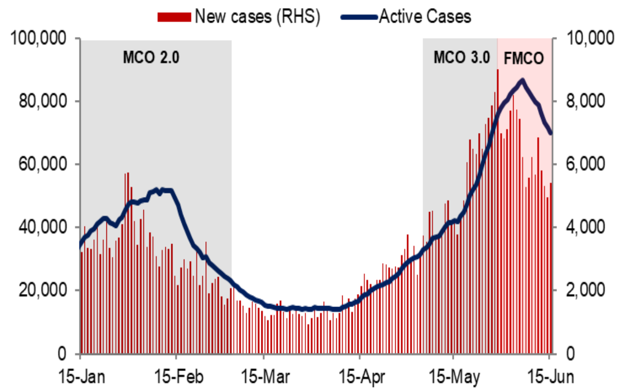
  – On the domestic vaccination front, more than 4.6m doses of COVID-19 vaccines have been administered in Malaysia. In all, a total of 3,275,194 (10.0% of the population) Malaysians have received at least one vaccine shot and out of that total, more than one third or 1,413,039 (4.3%) have received both doses.

  – The pace of vaccination rollout in Malaysia has accelerated in the past seven days, ranging from 124.0k to more than 197.0k doses per day. By extrapolating using government best case scenario of administering at least 150.0k doses of vaccine per day in June, 200.0k in July and 300.0k from August onwards, **Malaysia could achieve the 80.0% herd immunity target as early as December 7.**

  – To make this possible, Malaysia essentially needs to secure more COVID-19 vaccine supplies and deliveries, establish more COVID-19 vaccine centres (e.g. health clinics, walk-in facilities, mobile outreach) especially in rural areas and villages. More importantly, more manpower to effectively execute the process of vaccinating the public.

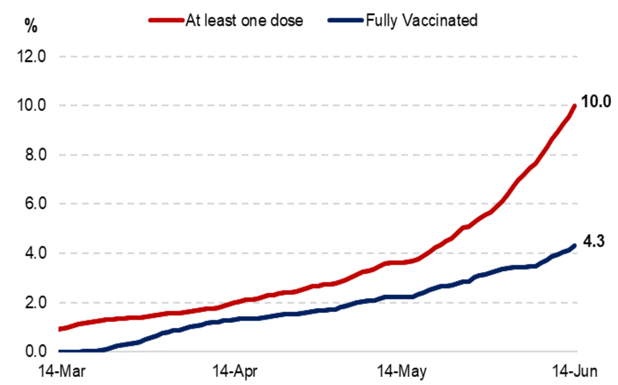
  – To note, on June 15, the Drug Control Authority (DCA) of Malaysia has approved the usage of Pfizer-BioNTech's vaccine for children aged 12 years and above. This approval marks a milestone for the National COVID-19 immunization program (PICK) as vaccinating the 12-17 year old group would raise the number of target vaccinated population to more than 26.0m (80.0% of the population) as compared to around 23.5m (71.0% of the population) previously. The 12-17 year old group is scheduled to be vaccinated during the fifth phase of PICK in August.

Graph 1: Malaysia COVID-19 Pandemic Trend



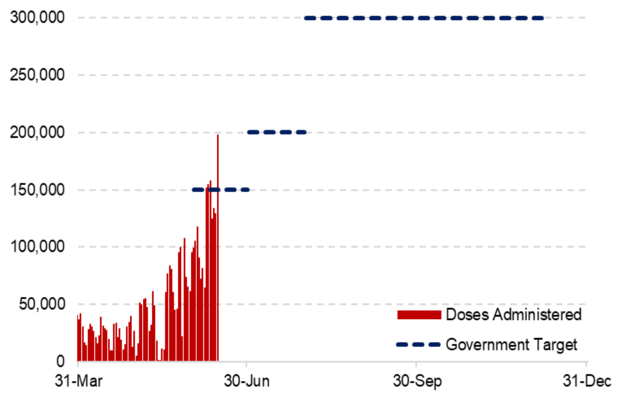
Source: Kenanga Research, MoH

Graph 2: Malaysia COVID-19 Vaccination Rate



Source: Kenanga Research, JKJAV

Graph 3: Malaysia COVID-19 Vaccination Target



Source: Kenanga Research, JKJAV

  – To add, the DCA has also issued a conditional registration for emergency use of the two-single dose CanSino vaccine and the single-dose Johnson & Johnson vaccine. This will definitely help to accelerate Malaysia vaccination target of inoculating at least 26.0m of the population by the end of 2021.

- **No change to GDP growth outlook, but sees the need to inject additional fiscal stimulus to aid economic recovery**

  – **GDP:** 2021 GDP forecast retained at 5.0% – 6.0% (point forecast: 5.5%) despite the announcement on the National Recovery Plan as we have factored in the possibility of lockdown extension and slightly slower reopening of the economy given the heightened uncertainty over the COVID-19 situation with the emergence of the new variant.

- The retail sector will remain pressured in the near term, as consumer activities would be weighed by the tightened mobility restrictions and closure of non-essential stores. Nonetheless, we believe the impact would be less severe as consumers and businesses are more prepared with a greater shift towards online sales platforms. The situation is expected to gradually recover as the nation shift to Phase 2 in July and August and Phase 3 in September and October, with more sectors will be allowed to resume operation.

- The economy is expected to be continuously supported by the manufacturing industry, specifically the export-driven sectors, given the sustained external demand while most of its key sub-sectors (e.g. E&E, rubber gloves) are allowed to operate, albeit at a reduced capacity.

– **Fiscal & Debt:** We reiterate our 2021 fiscal deficit forecast at 6.3% of GDP (MoF: 6.0%; 2020: 6.2%), with total federal debt expected to widen to 64.5% (2020: 62.2%). Though no additional fiscal stimulus injection announced under the National Recovery Plan, we expect ongoing measures from the previous fiscal stimulus such as wage subsidies, targeted moratorium, and financial measures to support the economy. So far, the government has announced a direct fiscal injection worth RM71.0b (4.6% of GDP) from a total of RM368.6b (25.7% of GDP) worth of stimulus since the pandemic hit last year.

Table 2: Federal Government Fiscal Position

	Global Financial Crisis				MoF	KIBB
RM billion	2008	2009	2019	2020	2021F	2021F
Revenue	**159.8**	**158.6**	**264.4**	**225.1**	**236.9**	**239.0**
Gross Expenditure	**196.3**	**206.6**	**317.5**	**314.0**	**332.5**	**335.3**
Net Expenditure	**195.4**	**206.1**	**315.9**	**315.2**	**331.7**	**334.4**
Operating Expenditure	153.5	157.1	263.3	224.6	236.5	237.8
Gross Development Expenditure	42.8	49.5	54.2	51.4	69.0	70.6
Loan Recoveries	-1.0	-0.5	-1.6	1.3	-0.8	-0.9
COVID-19 Fund				38.0	27.0	27.0
Overall Balance	**-35.6**	**-47.4**	**-51.5**	**-87.6**	**-94.8**	**-95.4**
% of GDP	-4.6	-6.7	-3.4	-6.2	-6.0	-6.3
Federal Government Debt (% of GDP)	39.8	50.8	52.5	62.2	58.5	64.5
Real GDP Growth (%)	**4.8**	**-1.5**	**4.3**	**-5.6**	**6.5 - 7.5**	**5.0 - 6.0**
Average Brent Price (USD/barrel)	97.7	64.1	64.6	43.2	42.0	65.0

Source: MoF, CEIC, Kenanga's estimates

Table 3: Debt Headroom

		latest	RM bil limit	balance
Offshore borrowing	1Q21	28.2	35.0	6.8
Malaysian Treasury Bills (MTB)	May-21	10.0	10.0	0.0
Statutory (MGS, MGII, MITB)	May-21	875.5	907.6	32.1
Statutory (% of GDP)	May-21	57.9%	60.0%	2.1%
Total:		**913.7**	**952.6**	**38.9**

Source: BNM, CEIC, Kenanga's estimates

– **Debt Headroom:** Technically, the federal government's capacity to raise borrowing to finance additional stimulus is relatively limited given that it is bound to legal restrictions such as the Loan (Local) Act 1959, Government Funding Act 1983, and Treasury Bills (Local) Act 1946. Within just five months of this year the government has raised RM58.9b (Jan-May 2020: RM44.8b) new net debt or an increase of 31.6% YoY. Based on our estimation, the government has around RM38.9b space left for new borrowing before it hit the statutory debt limit. This may push new debt for this year to hit RM97.8b or about 6.5% of GDP should the government utilise the remaining debt space. However, this is subject to nominal GDP growth as higher than expected growth may ensure that the deficit and debt limit remain controlled. But with the economy currently enduring a prolonged period of pandemic crisis, we view an urgency for the government to raise its debt limit in order to sufficiently fund the economic recovery.

– **OPR:** We reiterate our view that BNM would likely maintain its policy rate at 1.75% for the rest of the year. This is based on several key factors: the strong external demand from advanced economies amid ongoing global economic recovery theme, the expectation of faster domestic vaccination rates in the coming months, and the build-up of inflationary pressure amid rising global commodity prices.

- **Downside risks will continue to weigh on the growth outlook despite exit strategy outline under the National Recovery Plan**

  – This includes slower-than-expected progress in vaccination and an unabated surge of COVID-19 cases made worse by the emergence of a more infectious COVID-19 variants such as the Delta variant. For example, the Delta variant, which first found in India, is now dominant and currently rising in the United Kingdom despite more than 70.0m or 80.0% of the population receiving at least one dose of vaccine.

  – The growth outlook may further be weighed by the possibility of a domestic political wrangling following the expectation that the parliament may reconvene in September or October should the COVID-19 situation come under control. Ultimately, if the political situation deteriorate, it may disrupt the tabling of the Federal Budget 2022.

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