

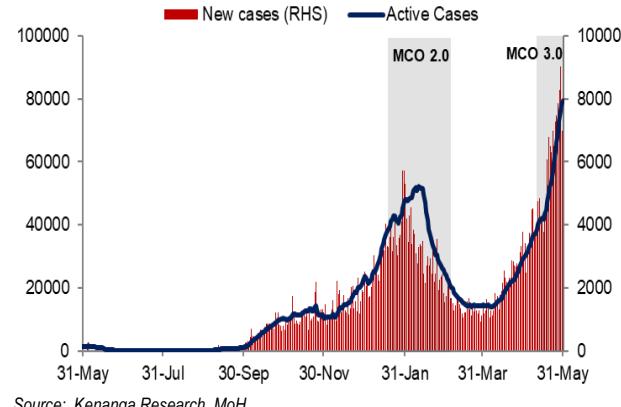
01 June 2021

COVID-19: PEMERKASA+

RM40.0b aid package to steer through the full-scale MCO

- Following the announcement of a total nationwide lockdown last Friday (May 28), Prime Minister Tan Sri Muhyiddin Yassin announced a new stimulus package worth RM40.0b (2.6% of GDP) yesterday (May 31) to bolster the country's economy and assist the people amid a total national Movement Control Order (MCO). The new PEMERKASA+ package has three main aims, namely: to enhance public healthcare capacity, continue the Prihatin Rakyat agenda in order to preserve the people's welfare, and to support business sustainability.
 - Of the total package, RM5.0b (0.3% of GDP) will be in the form of direct fiscal injections, whilst the remaining RM35.5b (2.3% of GDP) will be various indirect measures and supplements to earlier fiscal packages. This brings the overall COVID-19 fiscal stimulus (PEMERKASA+, PEMERKASA, PERMAI, PRIHATIN, PRIHATIN SME+, PENJANA, KITA PRIHATIN) to RM368.6b (25.7% of GDP), with direct fiscal injection totalling RM71.0b (4.6% of GDP).
 - This package consists of 21 strategic initiatives with three main themes:
 - **Enhancing Public Healthcare Capacity (4 initiatives):** various measures to strengthen public health amid a spike in COVID-19 cases, which has put a strain on hospitals and ICU capacity. Includes allocation to increase the number of ICU beds and to fund various COVID-19 related agencies.
 - **Continuing the Prihatin Rakyat Agenda (6 initiatives):** to ensure the well-being of vulnerable people and workers who depend on daily wages. Includes an additional RM2.1b in Bantuan Prihatin Rakyat cash aid and a return of loan moratoriums for various groups.
 - **Supporting Business Continuity (11 initiatives):** to assist businesses, especially SMEs, in managing their cash flow in order to promote business sustainability. Includes an additional RM500 aid for almost 1.0m SMEs under the GKP programme, on top of the RM1000 already planned for disbursement.
 - Despite the relatively small RM5.0b direct injection, the wider PEMERKASA+ fiscal plan is a sizeable package that will likely soften the economic impact of the total national lockdown and aid public healthcare against the rising number of COVID-19 cases.
- A swift vaccination campaign is an essential part of Malaysia's COVID-19 exit strategy
 - Since the COVID-19 started to wreak havoc in Malaysia on 26th January 2020, the total number of cases has now reached 572,357 with 2,796 deaths. Out of the total deaths recorded, more than 46.0% or 1,290 deaths were reported in May this year alone, signalling that our public health system is currently in dire straits. To add, the number of active cases is currently approaching the 80,000 mark as new daily cases continued to outnumber the number of daily recoveries.
 - On the domestic vaccination front, almost 3.0m doses of COVID-19 vaccines have been administered in Malaysia. In all, a total of 1,860,864 (5.7% of the population) Malaysians have received at least one vaccine shot and out of that total, more than half or 1,052,145 (3.2%) have received both doses. The current pace of vaccinations in Malaysia is very inconsistent, ranging from 20.0k doses per day to more than 100.0k per day in the past week. However, starting from June onwards, the number of injections is expected to accelerate to 150.0k a day. To note, an additional of nearly 16.0m more doses of vaccines are expected to arrive by July, with Sinovac vaccine being the majority (12.0m) of the doses.

Graph 1: Malaysia COVID-19 Pandemic Trend



Source: Kenanga Research, MoH

- **Economic and Financial Impacts**

- **GDP:** 2021 GDP forecast revised down to 5.0% – 6.0% (point forecast: 5.5%) from 6.0% - 6.5%, reflecting the impact from the MCO 3.0 which consists of three phases, beginning with a full lockdown in the 1st phase (2 weeks), followed by a gradual loosening of restriction measures in the 2nd (4 weeks) and 3rd phase (estimated duration: 4 weeks).
 - The downgrade is mainly attributed to lower domestic demand, primarily affecting the retail sector, as consumer activities would be hindered by the tightened mobility restrictions and closure of non-essential stores. Nonetheless, the impact would be less severe as consumers and businesses are more prepared compared to during MCO 1.0 , with a greater shift towards online sales platform. The PEMERKASA+ package would also help in minimising the pressure on disposable income of the lower income group and expanding cash flow of SMEs, allowing them to retain more employees.
 - Meanwhile, export-driven activities (i.e. manufacturing) would continue to support the economy, as most of its key sub-sectors (e.g. E&E, rubber gloves) are allowed to operate, albeit at a reduced capacity. Further underscoring our optimism are the persistent economic recovery of major trading partners, ongoing tech upcycle and higher global oil prices.
 - Our forecast remains subject to several downside risks, specifically a slower-than-expected progress in vaccination, unabated surge of the COVID-19 cases made worse by the emergence of a more infectious COVID-19 variant, and domestic political tussle which may interrupt the implementation of planned fiscal measures.
- **Fiscal:** No change to our 2021 fiscal deficit forecast at 6.3% of GDP (MoF: 5.4%; 2020: 6.2%), as we have included in our earlier assumption that the government will inject another round of fiscal stimulus in the near term. Though the GDP growth outlook is expected to grow at a slower pace, we expect higher Brent crude oil price for this year (KIBB forecast: USD60/bbl) which traded at a year-to-date average of USD63.5/bbl, will contribute higher oil-related revenue to the federal government. This is expected to support federal government expenditures and more importantly to bolster growth going forward. Nonetheless, as economic activities are expected to improve in the 2H21, we expect total revenue to the government to improve slightly.

Table 1: Federal Government Fiscal Position

RM billion	Global Financial Crisis						MoF	KIBB
	2008	2009	2017	2018	2019	2020		
Revenue	159.8	158.6	220.4	232.9	264.4	225.1	236.9	239.0
Gross Expenditure	196.3	206.6	262.6	287.1	317.5	314.0	332.5	335.3
Net Expenditure	195.4	206.1	260.7	286.3	315.9	315.2	331.7	334.4
Operating Expenditure	153.5	157.1	217.7	231.0	263.3	224.6	236.5	237.8
Gross Development Expenditure	42.8	49.5	44.9	56.1	54.2	51.4	69.0	70.6
Loan Recoveries	-1.0	-0.5	-1.9	-0.8	-1.6	1.3	-0.8	-0.9
COVID-19 Fund						38.0	27.0	27.0
Overall Balance	-35.6	-47.4	-40.3	-53.4	-51.5	-87.6	-94.8	-95.4
% of GDP	-4.6	-6.7	-2.9	-3.7	-3.4	-6.2	-6.0	-6.3
Federal Government Debt (%) of GDP)	39.8	50.8	50.1	51.2	52.5	62.2	58.5	64.2
Real GDP Growth (%)	4.8	-1.5	5.7	4.7	4.3	-5.6	6.5 - 7.5	5.0 - 6.0
Average Brent Price (USD/barrel)	97.7	64.1	55.7	71.6	64.6	43.2	42.0	60.0

Source: MoF, CEIC, Kenanga Research

- **OPR:** Even though BNM still has some room to maneuver and there is now a higher probability of another rate cut due to the implementation of a full-scale Movement Control Order, we still expect the BNM to maintain a status quo on the monetary policy front due to the global economic recovery narrative. Various measures introduced by the government and the expectation of faster domestic vaccination rates are expected to boost the economy growth in the 2H21. This is also backed by the current inflationary environment amid rising global commodity prices, as well as stronger external demand, evidenced by a sharp acceleration in the export growth (April: 63.0% YoY; Mar: 31.0%).

Appendix 1: Fund Allocation Breakdown of the PEMERKASA+ Economic Stimulus Package

Initiatives	RM b	% share	Timeline
Increasing Public Healthcare Capacity related to COVID-19	1.0	2.5	
Increase capacity of ICU beds and COVID-19 equipment	0.45	1.1	-
COVID-19 related expenses for various agencies (e.g. quarantine centres)	0.55	1.4	-
Extend the service period of medical officers and nurses	-	-	Until 2022
Expedite the administration of vaccines through the National Immunization Programme	-	-	-
Continuing the Prihatin Rakyat Agenda	34.6	86.5	
Additional cash aid under the Bantuan Prihatin Rakyat	2.1	5.3	Starts end-Jun 21
Loan Moratorium for B40 groups, SMEs, and others	30.0	75.0	Jun 21 to Aug 21
Loan Moratorium for eligible bus and taxi operators	1.0	2.5	12 – 36 months
Government agencies to offer deferred loan repayments, and rental discounts for business premises	-	-	-
Extend the Wage Subsidy Program	1.5	3.7	-
Levy payment exemption for employers registered with Pembangunan Sumber Manusia Berhad	-	-	Jun-21
Supporting Business Continuity	4.0	10.0	
Expand the GKP program for SMEs	0.5	1.3	-
Additional micro-credit financing for businesses	1.5	3.7	-
Targeted Relief and Recovery Facility for SMEs	2.0	5	-
RM500 aid to taxi drivers, bus drivers and e-hailing drivers	-	-	-
Inland Revenue Board to consider deferred payment of penalties	-	-	Until 2022
SSM to offer various extensions and fee moratoriums for businesses	-	-	Till end-Dec 2021
Act 829 to be improved to assist individuals and businesses affected by COVID-19	-	-	Till end-Dec 2021
Extension of electricity bill discounts to affected sectors	-	-	Jul 21 to Sep 21
Tax cuts to premises owners who offer rental discounts	-	-	6 months till end-Dec 2021
Extended Home Ownership Campaign	-	-	Until end-Dec 2021
Extended SST exemption for imported passenger vehicles	-	-	Until end-Dec 2021
Others	0.4	1.0	
Total	40.0	100.0	

Source: Ministry of Finance, Kenanga Research

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