Care Package

Wellian Wiranto
+65 6530 6818
WellianWiranto@ocbc.com

Malaysia unleashes immense stimulus measures

- These days, it can feel like we might be getting inured to big numbers, with a government throwing in "unprecedented" package here, and another central bank showcasing a "bazooka" set of measures there.
- Malaysia has joined the fray on Friday, announcing MYR250bn worth of stimulus. At least in terms of such headline-grabbing numbers, that is equivalent to 17% of GDP – higher than the 9% in the post-GFC 2009.
- The government's direct contribution is one-tenth of the total, pushing the deficit to 4% of GDP, in a nod to ratings agencies' comfort zone. With growth momentum looking more challenging by the day, the government finds the need to push at the boundary of fiscal limitations to help.

Love in the Time of Corona

In his speech to deliver the stimulus package on Friday, March 27th, PM Muhyiddin Yassin did not mince words at all. He couldn't have summed it up better than when he told his countrymen that "*We are a nation at war with invisible forces."* For good measure, in a rather direct reference to the circumstances through which he came to power, he added that while "*this government may not be the government that you voted for…I want all of you to know that this government cares for you*."

And, going by the headline numbers, what a care package it is projected to be.

At MYR250bn, which takes into account the 20bn package that previous PM Mahathir Mohamad announced on February 28th, it is said to be worth as much as 17% of GDP – easily the highest in the region thus far and eclipsing the MYR67bn (8% of GDP) package that was rolled out in 2009 post-GFC.

Where's the money going to?

A big chunk worth 10bn is slated to provide temporary cash handouts to the low- and middle-income households. Up to 4 million households earning less than MYR4000 a month will receive a total of MYR1600 each, for instance. If you happen to be single and over 21 years old, earning between 2000-4000 a month, the government has some love for you in the form of MYR500 handout.

Separately, up to 3.3mn workers in SMEs would have a better shot in keeping their jobs now with a wage subsidy scheme worth MYR5.9bn. For firms whose revenues have more than halved year-to-date, a subsidy of MYR600/month will be provided for each employee earning less than MYR4000, for a period of 3 months. Self-employed workers such as the 120,000 e-hailing drivers will receive one-off MYR500, as well, to drive home the point that everyone is taken care of.

There are many subsets of similar schemes for different demographic groups, with one common aim. That is, to protect the cash flow of vulnerable lower-income and middle-class groups at a critical juncture of the economy that has been whiplashed by the viral outbreak and its bitter pill of Movement Control Order.

Another main thrust of the package is to provide support to businesses, whose daily operations have obviously come to a standstill since the MCO began on March 18th and now extended all the way to April 14th, at least.

To that end, all SMEs will enjoy a deferment of income taxes for 3 months. The requirement for HRDF contributions – up to 1% of monthly wages for employee training and skills upgrading – will be waived for all sectors for 6 months. Meanwhile, even though employers' EPF contribution has technically remain untouched at 12%, the PM announced that an Employer Consultation Service will be set up. This programme is likely to include options for companies to defer, restructure or reschedule their portions of EPF contributions.

A hefty MYR50bn "Danajamin" fund has also been set up, with government guarantee. The fund is slated to help provide working capital needs for corporations needing loans of more than MYR20mn, with the government guaranteeing up to 80% of the corporate loans. The facility will be available for application from May 1st to end of 2020, or until the full guarantee sum provided by the government is exhausted.

Where's the money coming from?

To fund these additional expenditures, the government is providing a direct fiscal injection of MYR25bn, one-tenth of the slated total amount. Together with some of the extra spending which formed the 20bn package of February, this is expected to take the deficit to 4.0% of GDP, compared to 3.4% expected before.

While the 0.6ppt increase in deficit-to-GDP ratio will not escape the attention of bond investors and ratings agencies alike, even if it is pushing at the barrier, the new higher level should nonetheless be still within comfort zone, given the extraordinary circumstances that we are living through. For what it's worth, the ratings agency S&P has affirmed its rating classification for Malaysian sovereign over the weekend. Even as it forecasts a higher deficit of 4.1% of GDP, it expects the government to "maintain its fiscal consolidation trajectory over the medium term."

Nevertheless, the constraints would remain real. Having pushed hard to get to this number, there is potentially not much wiggle room left should the health and economic situations deterirorate over the next quarter or so. Still, in view of the clear and present danger of having to fight the virus via the MCO – and thus having to protect the economy from the considerable side-effects caused by that very medicine – the government had to do what it had to do.

Meanwhile, the rest (90%) of the 250bn is made up of a smattering of other sources. It includes for instance, an assumption that the recent BNM measure to ask the banking sector to defer loan and financing repayments for half a year to be worth as much as MYR100bn in and of its own.

Though touted inclusively as part of the package, some measures are essentially Malaysians borrowing from their own pockets. Analogous to the option to reduce the employees' contribution to the EPF announced back in late February – which is said to comprise MYR10bn of stimulus – the more recent package also includes in its calculations the recently introduced option to withdraw from the so-called second account. Up to MYR40bn is supposed to come from the measure to allow EPF members to withdraw up to MYR500/month for a year.

Elsewhere, the government has roped in help from companies, government-linked or otherwise, as part of the package, as well. As much as MYR500mn is accounted for by electricity tariff cutbacks courtesy of public utilities company, Tenaga Nasional. In a bid to improve adherence to the MCO or just to maintain sanity of citizens stuck at home for an extended period, there is going to be free internet during the MCO period from April 1st onwards. This is said to be worth MYR600mn, courtesy of telco giants such as Maxis.

Will the package help growth?

With such big sums thrown about, there is the obvious question of how much help it would render. The authorities have flagged the sense that the package will be worth a boost of 1.5 percentage points to the GDP. The government did not provide a new growth assumption alongside the package, alluding to how BNM is going to announce its forecasts this week, on Friday, alongside the publication of its Economic and Monetary Review.

Working backwards from how it has flagged MYR250b to be worth 17% of GDP, however, the numbers are not going to look pretty. Indeed, assuming a one-decimal point range of 16.5-17.5% of GDP (the lower- and upper-limits of numbers that might be rounded to 17%), as how much the package is as a proportion of the nominal GDP, we are looking at a nominal 2020 year-on-year growth rate range of -5.4% to 0.3%. Assuming a GDP deflator of 1%, the presumed real growth rate could thus be as low as -6.4% to -0.7%, all-around negative prints.

With so many factors changing on a daily basis – from oil price to growth outlook globally, and from virus case counts to length of MCO domestically – economic forecasts, to be extremely frank, have been rendered largely meaningless. Indeed, we started this exercise late last year at what we thought was already a conservative 4.2%, before shaving it down by seemingly a thousand cuts to 1.7%. Given the extent to which global growth outlook is dimming by the hour, even the latest working assumption may be looking lofty.

Even with the package's help, we now see an unfortunately distinct probability that the economy might enter negative growth territory. Our new working 2020 growth rates assumption is now a range of -2.5 to 1.5%. If the virus outbreak situation does not come under control in major export markets such as US, Eurozone and Japan in the coming weeks, the lower end of the forecast range would look more and more likely by the day.

In terms of deficit, while the 4.0% of deficit-to-GDP ratio targeted anew appears to look acceptable to ratings agencies currently, we are slightly concerned of potential slippage. For one, there is the denominator effect: As nominal GDP shrinks more than expected, the ratio goes up. Perhaps more crucially, the oil price assumption, to us, remains optimistic at $35-40bbl. Even using the government's more conservative assumption of how oil price affects revenue – at MYR300mn per $1 drop in price – if oil price languishes at an average of $25 for 2020, revenues will be hit by a tidy MYR3bn, which may push deficit to 4.2% instead of 4.0%.

Overall, in the grand scheme of things, at a time when the authorities are fighting a war against the viral outbreak at hand by 'voluntarily' shutting off the economy to preserve lives, bringing up such considerations may appear to be splitting hairs.

Nonetheless, there will come a time when market may have time to pay attention to such details again. Hence, as much as market players fully understand the need for any kind of help the government can render fiscally now, a clear path towards medium-term consolidation may be needed soon to anchor confidence as and when things normalize again.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com