In the Interim

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Malaysia's stimulus is a timely help amid political quagmire

- Kudos are due to the civil servants who managed to finalize Malaysia's stimulus package amid what is, effectively, a political vacuum. Moreover, it is a set of measures that throw a crucial lifeline to some firms. Tourism-related businesses would cheer the tax deferments and digital trip vouchers.
- Still, the crushing bite of reality is still evident from yesterday's speech by the interim PM Mahathir. Even as he struck a confident tone on how the package would help to lessen the pain, growth expectation is shaved down heftily, from the lofty 4.8% to a more realistic range of 3.2-4.2% for 2020.
- Moreover, deficit target of 3.2% of GDP has been revised to 3.4%. While looser policy stance throughout the region gives Malaysia some breathing space, it is not unlimited. More broadly, what the economy needs apart any stimulus package now is a clearer path towards political stability.

A Booster Shot

With Covid-19 outbreak seemingly popping up everywhere on the globe, there is no telling how long more economies have to bear the impact.

Given the unsettling situation, the Malaysian interim PM, Mahathir Mohamad, has announced a stimulus package yesterday that is slated to be worth MYR20bn. At face value, this would amount to a fairly sizable 1.2% of GDP.

Looking into the details, the measures are understandably focused on helping sectors that are most hit by the virus, including tourism. Boosts to consumption and investment activities are hoped for, as well.

Go forth and travel

Tourism-related industries – including hotels, airlines, travel agents, malls and convention centres – received a number of timely measures, effective for 6 months (April-September 2020). These include a deferment of monthly income tax payments and 15% off electricity bills. An exemption of 6% service tax for hotels will start in March.

To stimulate domestic travel demand, the government will also be giving out MYR100 digital vouchers for Malaysians to spend on domestic travel by rail, plane and accommodation. A matching grant worth MYR500mn is also allocated to boost tourism promotion activities. Moreover, up to MYR1000 of income tax relief can be had for domestic tourism spending. For good measure, the government has also relaxed its existing guidelines that restrict use of hotels by ministries and agencies.

Broadly speaking, for the beleaguered sector – which was supposed to enjoy an uplift in foreign tourist arrivals due to the Visit Malaysia 2020 campaign –

even if the ultimate pain may still be significant, the host of measures must have felt like a soothing balm nevertheless.

Go forth and spend

Apart from tourist arrivals, another aspect of the economy that bears the brunt of the virus impact has been domestic consumption activities, as people cut back on spending either because of fears of catching the virus or of dimmer employment prospects due to the softer economy. Given the increasingly important role that private consumption plays in the economy, that is an area to be keenly watched.

To that end, the package enlisted the cavalry of EPF contribution cut to battle the inevitable onset of consumption slowdown. From the existing rate of 11%, it will be reduced to 7% effective from April to year-end, although employees can opt to continue contributing at the higher rate. The 4ppt reduction is expected to unlock up to MYR10bn worth of extra disposable income, according to the government. This would essentially form half of the headline MYR20bn stimulus number.

The extra cash from the EPF contribution cut may come in handy for some households that might be facing cash crunch at a difficult period. At a broader level, however, the propensity to consume is likely to be fairly limited. After all, the contribution cut is essentially an act of borrowing from own future via less savings. The general atmosphere of malaise would limit how eager people want to spend on discretionary goods as well. All in all, we expect just half of the extra cash will be spent, even if most people might still opt to receive it, just in case.

Elsewhere, the government would also bring forward the BSH (Bantuan Sara Hidup) living cost allowances for the lower-income households worth MYR200 from May to March. An additional MYR150 will go to each of them as well in May, in bank and digital transfers.

Go forth and invest

To help cushion the blow against investment activities, the package has also included measures to help tip the risk-reward calculations for some businesses. For instance, up to MYR300k of renovation and refurbishment costs can now be tax-deductible. The government will also allow accelerated capital allowances over 2 years for machinery and equipment expenses.

Apart from that, with an eye on boosting the domestic start-up scene, the government has also started a co-investment fund for investment in early- and growth-stage companies. It is injecting MYR500mn into the fund, and expects at least MYR1.5bn matching investments by private investors, bringing the total to MYR2bn potentially.

The BNM has also participated on this front, by providing a so-called SME Automation & Digitalization Facility, which is essentially a MYR300mn loans initiative with an attractive interest cost of 3.75%.

Helpful, but…

Overall, the measures announced would provide much-needed cushion for businesses, especially in the hard-hit industries. The effect on consumption, however, might be less than the headline might suggest, given the likely preference for some employees to save up given the uncertainties ahead.

Moreover, the package comes at a cost of higher fiscal deficit, even though the federal government has managed to rope in some participation from the EPF and BNM. Compared to the 3.2% deficit-to-GDP target for 2020 that was announced by now-former Finance Minister Lim Guan Eng last year, the target will now be 3.4%, in line with the 2019 target.

Even though the broad environment of fiscal stimulus – from the likes of Singapore and Hong Kong – provide some cover for Malaysia's wider fiscal deficit target, the need for medium-term fiscal consolidation due to its relatively high debt level also means that the room to do more if the need arises has largely been used up.

Above all, while the stimulus has gone some ways in addressing the economic impact of the virus, an equally big elephant in the room at the moment is the seemingly unceasing political uncertainties over the past week. If nothing else, until Malaysians see some semblance of resolution to it, they might well be too glued to the flashes of news updates on their cell phones to plan how to use their travel vouchers and such.

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