

Macro Note

Malaysia: Another Fiscal Shot Of MYR20bn For The Economy

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- The government announced a fiscal package (PEMERKASA) yesterday (17 Mar) worth MYR20bn (~1.3% of GDP), of which MYR11bn is a direct fiscal injection from the government. This brings total fiscal assistance to MYR340bn over six packages since the start of the pandemic.
- The package aims to jumpstart the economy with five focus areas and 20 initiatives. Key measures include higher allocations for the COVID-19 vaccine program (MYR2bn), cash handouts for the B40 households (MYR1.2bn), wage subsidy extension (MYR0.7bn), subsidies for smart device purchases for B40 households (MYR0.5bn), grants and microcredit (MYR1.6bn), small projects nationwide (MYR2.5bn), and electricity bill discounts (MYR135m). Fuel subsidies worth MYR3bn will also be spent to cap domestic fuel prices and manage inflation risks.
- The latest fiscal package comes as new daily infections are on a downtrend, followed by easing of movement restrictions this month to support the economy. With the national vaccine program underway, the government said a targeted COVID-19 containment strategy will be enforced to provide more economic certainty. The additional support from PEMERKASA will help address concerns of lingering pandemic risks and uneven recovery. It also offers new initiatives to strengthen the country's competitiveness with specific focus on attracting investments, boosting trade, and driving digitalisation. We maintain our 2021 GDP forecast of 5.0% (2020: -5.6%).

Sixth Stimulus Package To Aid Recovery, No More Blanket Movement Control Order

The government announced a fiscal package (PEMERKASA or People and Economic Strategic Empowerment Program) yesterday (17 Mar) worth MYR20bn (~1.3% of GDP), of which MYR11bn is a direct fiscal injection from the government. This brings total fiscal assistance to MYR340bn over six packages since the start of the pandemic last year.

The PEMERKASA package aims to jumpstart the economy with five focus areas and 20 initiatives. Through the initiatives, the government's target is to stimulate economic recovery, support the business sector, and continue the distribution of targeted aid and subsidies. The five focus areas are: 1) to control the spread of COVID-19, 2) accelerating the economic recovery, 3) strengthening Malaysia's competitiveness, 4) ensuring inclusivity, and 5) transforming the economy. Some of the key initiatives announced include (further details in Appendix):

1. **Control the spread of COVID-19** – Higher allocations for the COVID-19 vaccine program (MYR2bn), tax deductions for companies conducting the COVID-19 test, and tax incentives for companies participating in the Safe@Work initiative.
2. **Accelerating the economic recovery** – Higher allocations for small projects nationwide (MYR2.5bn), special grants for SMEs (MYR1.0bn), microcredit facilities (MYR0.5bn), extension of wage subsidy scheme (MYR0.7bn), tax exemptions for tourism sectors, tax relief for tour packages, extension of electricity bill discounts for another 3 months (MYR0.135bn), higher fundraising limits for equity crowdfunding, lower indebtedness thresholds, free business registration fees for B40 group and local higher-learning students, financing incentives for cooperatives, matching grants to promote sustainable palm oil cultivation, and digitalisation grants.
3. **Strengthen Malaysia's competitiveness** – Higher allocations under BNM's Targeted Relief and Recovery Facility for SMEs (MYR2bn), facilities for automation and digitalisation (MYR0.7bn), financing for digitalisation (MYR0.2bn), Universal Services Provision (USP) fund to improve quality of broadband services (MYR3.2bn), subsidies for smart device purchases for B40 households (MYR0.5bn), and promotion of sustainable financing through Sukuk Lestari (more than USD1bn or MYR4.12bn).
4. **Ensuring inclusivity** - Cash handouts for the B40 households (MYR1.2bn), and e-wallet credits for youths (MYR0.3bn).
5. **Fuel subsidies** of MYR3bn to cap domestic fuel prices (RON95 at MYR2.05/litre; diesel at MYR2.15/litre) to manage cost of living and inflation risks.

Given that the economic recovery is dependent on vaccine rollouts, the package includes efforts to accelerate the national vaccination program in order to reach herd immunity earlier by end-2021 (vs. previous targeted time by Feb 2022). Since the domestic vaccination program started on 24 Feb, more than 346 thousand front liners have received their first dose and over 5 million people have registered for the vaccine (as at mid-Mar). The government said that with the vaccine program underway, there would be a more targeted COVID-19 containment strategy to provide more certainty for businesses, and alleviate the negative effect on the economy. Going forward, the government is unlikely to impose any further blanket restrictions or movement control order. Instead, targeted movement control restrictions will be implemented based on localities and specific clusters. Although the Conditional Movement Control Order (CMCO) remains across key economic states and interstate travel is broadly restricted with the exception of selected travel bubbles and for tour vehicles, there are significantly lesser restrictions to allow reopening of schools, inter district travel, and resumption of most economic sectors.

Economy To Improve From 2Q21

The economic recovery hit a speed bump in 4Q20 amid the reinstatement of the CMCO last October to contain the spread of COVID-19 infections. Real GDP contraction widened to 3.4% in 4Q20 (2Q20: -2.6%). For the full year, real GDP fell 5.6% in 2020 to mark the weakest GDP performance since the Asian Financial Crisis in 1998.

2021 started on a challenging note as containment measures were tightened further in mid-Jan under the Movement Control Order (MCO 2.0) and a state of emergency was announced as part of wider efforts to contain the pandemic after a resurgence of infections. As such, the speed bumps on the recovery path are likely to persist with another quarter of contraction in 1Q21. Latest key economic indicators in Jan showed that the industrial production index rose 1.2% y/y (Dec: +1.7%) mainly due to further expansion of manufacturing output (Jan: +3.5%, Dec: +4.1%) while mining and electricity output contracted further by 4.5% y/y and 4.6% y/y respectively (Dec: -5.4% and -0.2%). Services activity remains muted with declines in wholesale trade by 0.1% in Jan (Dec: -0.5%), retail trade down by 3.2% y/y (Dec: -2.9%), and motor vehicle sales contracting 13.1% y/y (Dec: +5.9%). Meanwhile, agriculture production was weighed down by declines in palm oil output of 14.2% y/y in Feb (Jan: -3.8%), and rubber production fell 31% y/y in Jan (Dec: -14.7%).

However, the negative impact is moderated with more economic sectors allowed to open subject to strict operating procedures while higher adoption of digitalisation facilitated more consumption and business activities. Mobility and social recreational indicators signal improvements in Mar. The growth trajectory is expected to improve from 2Q21 onwards aided by a low base effect, further improvement in the global economy, and gradual normalization in domestic activity. This would be further supported by the vaccination program that is underway, signs of downtrend in infections, and ongoing fiscal and monetary support. We project 2021 GDP growth at 5.0% (2020: -5.6%).

Temporary Spike In Inflation

For the full year, headline inflation averaged at -1.1% in 2020. We expect inflation to return to positive territory by 1Q21 after registering a narrower decline of 0.2% y/y in Jan (Dec: -1.4%) on the back of higher fuel and food prices. We are likely to raise our 2021 full-year inflation target of +2.1% amid higher global oil prices above our current projection of USD50-55/ bbl. To manage upside inflation risks, the government announced a price ceiling on domestic fuel prices. Despite the expected uptick in inflation and negative real interest rates in the near-term, we do not expect BNM to adjust its neutral monetary policy stance given that underlying demand pressures remain muted amid an uneven economic recovery and labor market weakness ([link](#) for details).

Government's Fiscal Position and Deficit Target

We think the latest MYR20bn fiscal package will be financed through a combination of debt issuance, reallocation of unutilised existing funds, and higher oil-related revenue. Based on previous estimates, the government is able to collect additional MYR300m for every USD1/ bbl increase in average Brent oil prices. We estimated ~ MYR6bn-7bn of additional oil-related revenue based on Brent oil price of USD65 (vs. budget assumption of USD42). However, this is partly offset by fuel subsidies of MYR3bn.

To recap, the COVID-19 Fund was established under the Temporary Measures for Government Financing (COVID-19) Act 2020, that was gazetted on 23 Oct 2020. The Fund plans to spend MYR17.0bn in 2021 (2020F: MYR38.0bn), mainly on wage subsidy programs and small scale projects. The key purpose is to implement economic stimulus packages and recovery plan. The Act allows proceeds from borrowings to be transferred into this Fund to finance the various fiscal stimulus packages. The ceiling for the Fund was raised by an additional MYR10bn to MYR65bn. The COVID-19 Fund is a temporary fund that spans over three years until end-2022.

Finance Minister Tengku Zafrul said the fiscal deficit is expected to reach 6.0% of GDP this year (2020: -6.2%), above the earlier estimate of 5.4%, following the implementation of PEMERKASA stimulus package. The country's statutory debt is expected to reach 58.5% of GDP in 2021, which is still under the 60% statutory debt limit. However, he assured that the government would continue to focus on its fiscal consolidation agenda.

2021 Year-To-Date Direct Fiscal Injection From PERMAI And PEMERKASA Packages

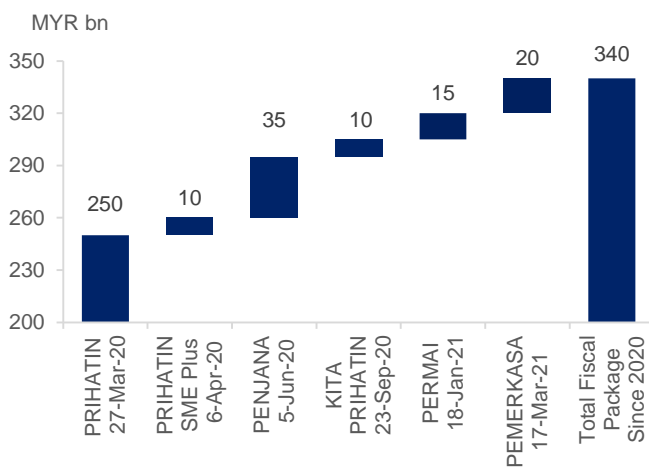
Source: PMO, MOF, UOB Global Economics & Markets Research

No.	Measures	PERMAI Assistance Package (on 18 Jan 2021) MYR bn*	PEMERKASA Package (on 17 Mar 2021) MYR bn*
1	Wage Subsidy Program	1.5	0.7
2	Grants (incl. GKP & matching grants)	0.8	1.3
3	Various cash aids (incl. assistance for e-hailing etc)	0.1	1.5
4	Infrastructure spending (mainly small-scale projects)	0.0	2.5
5	Tax incentives	1.0	1.5
6	Others (incl. electricity bill discounts, COVID-19 expenses)	3.2	3.5
Total Direct Fiscal Injection:		6.6	11.0
- As % of GDP*		0.4	0.7

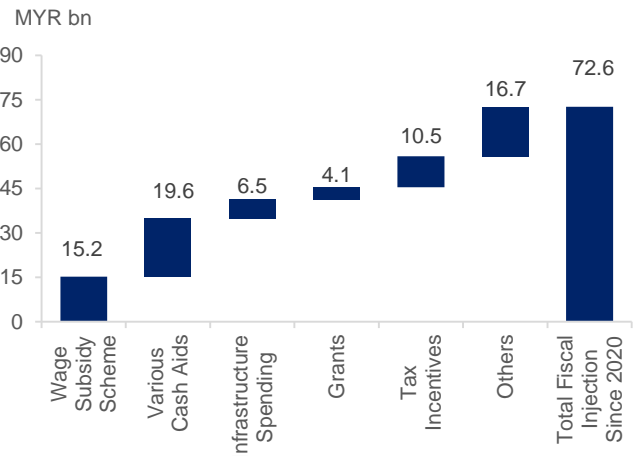
*UOB's estimate and derivation from all announced measures

Six Fiscal Packages Unveiled Since 2020 Worth MYR340bn... ... With Direct Fiscal Injection Totalling MYR72.6bn*

Source: PMO, MOF, UOB Global Economics & Markets Research

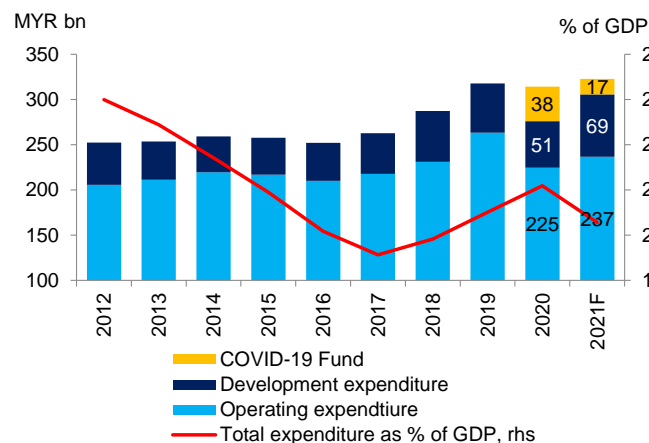


Source: PMO, MOF, UOB Global Economics & Markets Research
*UOB's estimate



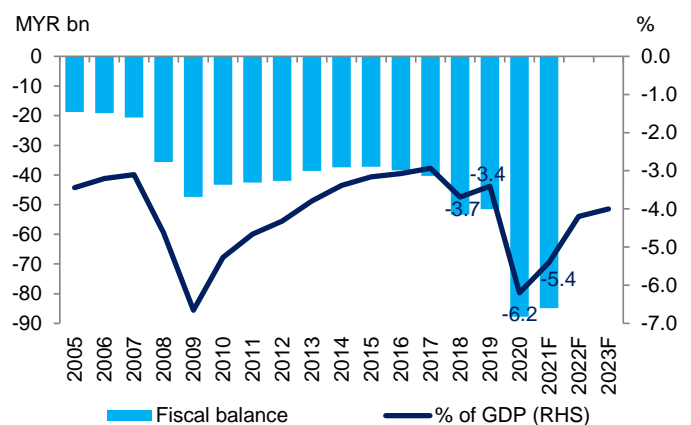
Record Budget Expenditure Of MYR322.5bn For 2021

Source: MOF, UOB Global Economics & Markets Research



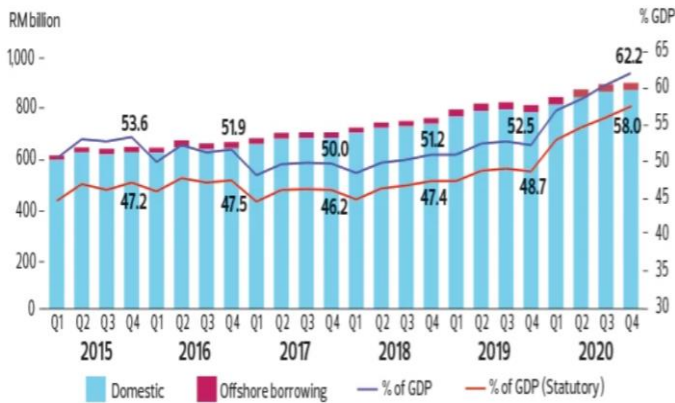
Government Expects Fiscal Deficit To Reach 6% in 2021 (vs. earlier estimate of 5.4%)

Source: MOF, UOB Global Economics & Markets Research



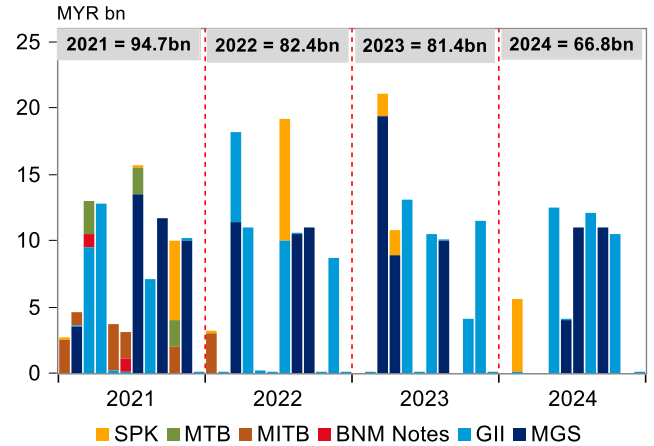
Federal Government's Direct And Statutory Debt

Source: MOF, UOB Global Economics & Markets Research



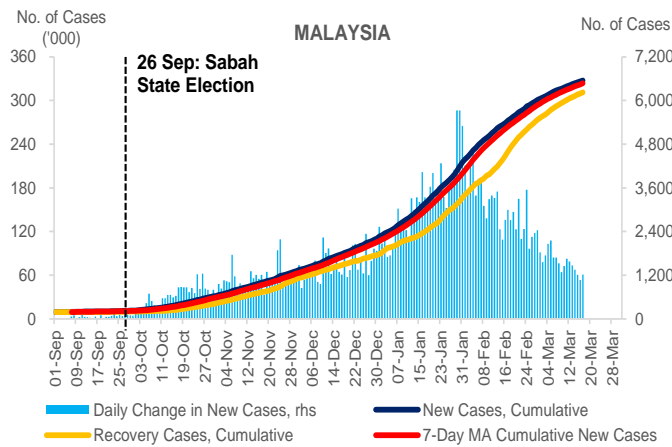
Federal Government Debt Maturity Profile

Source: BNMFAST, Macrobond, UOB Global Economics & Markets Research



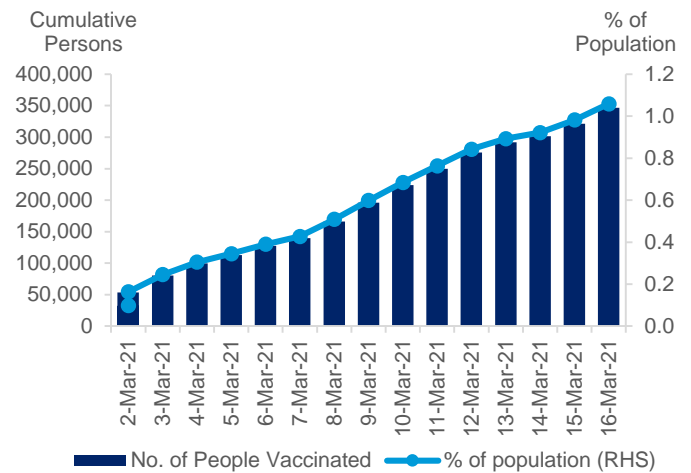
Malaysia's New Daily COVID-19 Cases On A Downtrend

Source: MOH, UOB Global Economics & Markets Research



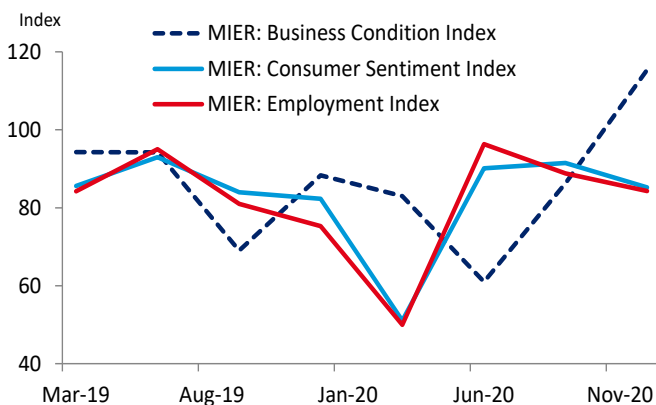
Total Of 346,508 Persons Vaccinated (as at 16 Mar 2021)

Source: MOH, UOB Global Economics & Markets Research



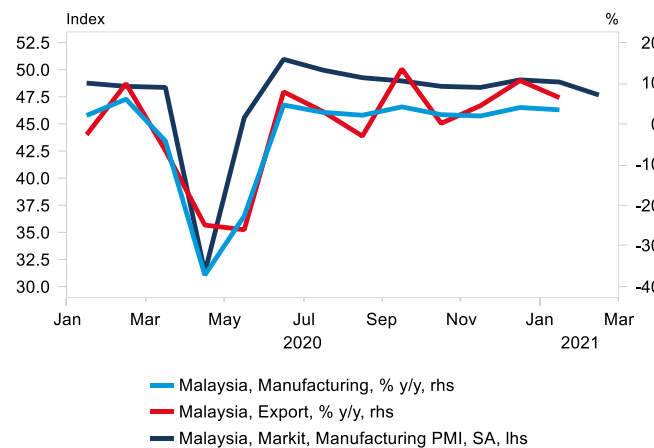
Consumer and Business Sentiment

Source: CEIC, UOB Global Economics & Markets Research



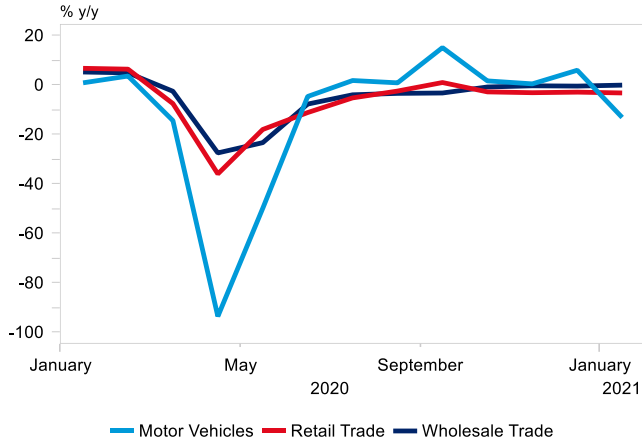
Exports and Manufacturing Activity

Source: Macrobond, UOB Global Economics & Markets Research



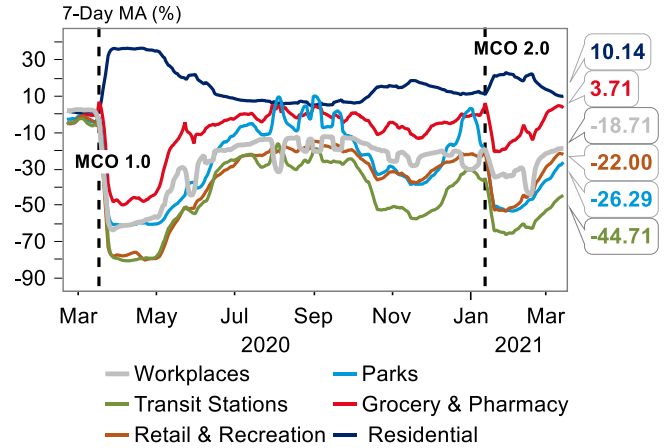
Wholesale and Retail Trade

Source: Macrobond, UOB Global Economics & Markets Research



Google Mobility Trackers for Malaysia

Source: Macrobond, Google, UOB Global Economics & Markets Research



Appendix: PEMERKASA Fiscal Package – Focus 1 & 2

Source: PMO, Media sources, UOB Global Economics & Markets Research

Focus / Initiative	Effective Period	Federal Govt Fund (MYR m)*	Non-Federal Govt Fund (MYR m)*	Total Amount (MYR m)*	Remarks
A To Control The COVID-19 Outbreak					
1 COVID-19 Immunisation Program					
- Raise total allocation for purchasing vaccines to MYR5bn from MYR3bn	-	2,036	-	2,036	
- MYR200/month special assistance for civil servants involved in immunisation program	12 months	36	-	36	
2 No More Nationwide Or State-wide MCO					
3 Strict and Rigorous Legal Enforcement					
- Tax incentives up to MYR50k for manufacturing and services companies participating in MITI's Safe@Work Initiative	From 1 Apr 2021	-	-	-	
- Tax deductions for companies conducting COVID-19 test for their employees	Until 31 Dec 2021	-	-	-	
Subtotal:		2,036	-	2,036	
B To Steer Economic Recovery					
4 Implementation Of Small Projects Nationwide					
- Increase in allocations for small-scale projects from MYR2.5bn to MYR5bn	2021	2,500	-	2,500	
- Government would simplify its project procurement process to facilitate the project implementation	-	-	-	-	
5 Prihatin Special Grant 3.0 (GKP 3.0)					
6 Provide an additional MYR500m for microcredit facilities, on top of the MYR1bn allocated in the national budget 2021					
- Tekun Mobilepreneur programme will be expanded to include the financing for new purchases or repairs of motorcycles with a limit of up to MYR10,000. A 100% exemption of excise duties on locally assembled 150cc and below motorcycles will be given, starting 1 Apr until 31 Dec 2021.	1 Apr - 31 Dec 2021	-	-	-	Assuming 1,000 SMEs apply Funded by BSN (MYR300m), Tekun Nasional (MYR60m), MARA (MYR50m) & SME Corp (MYR50m)
- Tekun Pos-Preneur initiative introduced for delivery drivers, with funding of up to MYR20,000 for vehicle repairs, and MYR50,000 for purchase of vans or lorries	-	-	500	500	
7 Job Retention And Employment Incentives					
- Expand recruitment incentives (MYR600/month for six months) to include 60k temporary and gig workers	Six months	300	-	300	
- Companies that are registered with SOCSO and offering jobs to temporary and gig workers will receive MYR200 for each worker hired	-	-	-	-	
- Extend wage subsidy programme for another three month for targeted groups	Three months	700	-	700	
- The Hiring Incentive Programme, PerjanaKerjaya, will be continued for six months and trainees under the programme will receive an incentive of MYR800/month	Six months	-	-	-	
8 Revitalize Tourism And Retail Sectors					
- Extend the exemption of tourism tax and services tax for hotel accommodation	Until 31 Dec 2021	-	-	-	
- Extend tax incentives to tour operator companies until the year of assessment 2022	Until YA 2022	-	-	-	
- Allow deferment of payment of monthly income tax installments from 1 Apr to 31 Dec 2021, for tourism industry and selected industries such as stage movies and spas	-	-	-	-	
- Provide entertainment duty exemption on admission fees to entertainment venues all Federal Territory	-	-	-	-	
- Expand the scope of special individual income tax relief up to MYR1,000 to cover package purchase expenses travel through a travel agent registered with MOTAC	-	-	-	-	
- Provide HRDF levy exemption for companies in tourism and affected retail sectors	Until 30 Jun 2021	-	-	-	
- One-off Special Assistance Grant of MYR3,000 for over 5,000 tourism agencies registered with MOTAC	-	15	-	15	
- One-off cash assistance of MYR600 for 4,000 homestay operators registered with MOTAC	-	2	-	2	
- Extend 10% electricity bill discounts for another 3 months until 30 Jun 2021	1 Apr - 30 Jun 2021	135	-	135	
9 Reduce Company Burden And Empower Cooperatives					
- SC to raise fundraising limits for companies utilising equity crowdfunding from MYR10m to MYR20m, while this method of fundraising to be extended to unlisted limited companies	-	-	-	-	
- 12-month waiver on listing fees for those requesting to list on MAIN, ACE, or LEAP market. In addition, rebates for annual listing fees for 2021 will also be given to listed companies that have reported losses based on their quarterly reports	-	-	-	-	
- Companies Commission of Malaysia (SSM) to raise the indebtedness threshold for companies from MYR10k to MYR50k	-	-	-	-	
- SSM to provides free business registration facilities to B40 group and full-time IPT students who want to venture into the field of entrepreneurship	-	-	-	-	
- Cooperative Commission of Malaysia will provide financing incentives of up to MYR100k without collateral to help the affected cooperatives	-	-	50	50	
- Increase matching grants for the purchase of machinery to the Sustainable Oil Palm Cultivation Cooperative	-	20	-	20	
- Extend BSN's Digitization Matching Grant to cooperatives	-	-	-	-	
Subtotal:		4,672	550	5,222	

Appendix: PEMERKASA Fiscal Package – Focus 3 & 4

Source: PMO, Media sources, UOB Global Economics & Markets Research

Focus / Initiative	Effective Period	Federal Govt Fund (MYR m)*	Non-Federal Govt Fund (MYR m)*	Total Amount (MYR m)*	Remarks
C To Strengthen The Nation's Competitiveness					
10 Strengthening the Business Environment Via PEMUDAH					
11 Automation And Digitization					
- BNM has increased the Targeted Relief and Recovery Facility for SMEs by MYR2bn and facilities for automation and digitalisation by MYR700m, bringing the total amount of facilities provided by BNM to SMEs to MYR6bn	-	-	-	-	Already announced before
- MIDF to provide MYR200m financing scheme for the development of automation, digitization and utilization green technology, with a lower loan interest rate of 3% (vs. 5% previously) for a period of 12 months	From 1 Apr 2021	-	200	200	
- Additional funds of MYR50m for the Smart Automation Grant under MIDA	-	-	50	50	
- MITI will allocate MYR50m for the Industry4WRD Program	-	-	50	50	
- SME Bank will provide MYR200m worth of loans to finance the purchase of machinery and equipment	-	-	200	200	
12 Reduce Digital Gap					
- Raise the one-off subsidy for BPR households to purchase gadgets or smartphones under the Jaringan Prihatin Program for their schooling children from MYR180 to MYR300	From May 2021	500	-	500	
- MCMC has allocated MYR3.2bn under the Universal Services Provision (USP) Fund for 2021 to improve the quality of broadband services, particularly in rural areas	2021	-	3,200	3,200	Already allocated before this Pemerkesa package announcement
- MCMC will introduce the MyBAIKHATI program with the cooperation of the telcos as a device crowdsourcing initiative	-	-	-	-	
13 Promote Investment And Export Markets					
- MITI to implement eBizLink and Globepreneur initiatives	-	-	-	-	
- Government will raise the Market Development Grant (MDG) ceiling from MYR300k to MYR500k per company which participates in international exhibition platforms	-	-	-	-	
- MYR50m matching grant to grow the aerospace and medical device industries	-	50	-	50	
14 Promote Sustainable Financing					
- Government together with the UN of Malaysia will establish MySDG Trust Fund as a platform that enables funding from a variety of sources to fund projects that meet SDG criteria	-	-	-	-	
- Government to issue Sukuk Lestari worth no less of USD1bn to fund sustainability-related programmes	-	-	4,120	4,120	Assuming USD1bn with USDMYR at 4.12
Subtotal:		550	7,820	8,370	
D To Ensure The Inclusivity Agenda					
15 Income Loss Assistance					
- One-off cash assistance of MYR500 for B40 group who have lost income & an additional payment of MYR500 to BPR recipients earning MYR1k and below	From Jun 2021	1,200	-	1,200	
- Government will extend the period for inability to perform contractual obligations from 31 Mar to 30 Jun 2021	-	-	-	-	
16 Improve Assistance Programs For Urban Vulnerable					
- Government will allocate MYR100m for the Malaysian Kitchen Program through cashless purchase initiatives	-	100	-	100	
- B40 group who is allowed to be quarantined at home due to COVID-19 is eligible for an income replacement payment benefit of MYR50/day up to 14 days	-	-	-	-	
- Expand mobile clinic service through KPT PRIHATIN, KOMUNITI SEJAHTERA (KRIS) Program nationwide	-	-	-	-	
- Social Welfare Department will appoint a total of 2,500 additional officers under the MySTEP initiative to ensure assistance reaches those in need	-	-	-	-	
17 Prihatin Women					
- Government will provide a MYR30m fund for MSME e-Commerce Campaign and Malaysia Online Shop Program	-	30	-	30	
- BSN will provide MYR50m for the PEMERKASA-NITA Micro Financing Scheme to encourage women entrepreneurs to venture into business	-	-	50	50	
- PERKESO allocates MYR10m in the form of a 70% matching fund for women entrepreneurs and self-employed women	-	-	10	10	
18 Prihatin OKU					
- Government will increase the maximum salary eligibility limit for Disabled Workers Allowance from MYR1,200 to MYR1,500 per month, which will benefit 5k OKU	-	26	-	26	
- Government will allocate an additional MYR20m to strengthen programs under the supervision of the Ministry of Women Development, Family and Society	-	20	-	20	
- SSM to offer free business registration and renewal for OKU	-	-	-	-	
19 Prihatin Youth					
- Increase the eBelia eWallet credit from MYR100 to MYR150	From Jun 2021	310	-	310	
- An additional allocation of MYR10m for the Pemerkesaan Ekonomi Komuniti Bandar (PEKB) Program, to a total allocation of MYR21m for 2021	-	10	-	10	
- Funds top up for Tunas Usahawan Belia Bumiputera program	-	-	-	-	
- Introduce 'New Gen Entrepreneur Online Bootcamps' program	-	-	-	-	
- BSN will offer PEMERKASA BELIA Micro Financing Scheme up to MYR50k with interest rates as low as 3%	-	-	-	-	
20 Continuation Of Fuel & LPG Subsidies To Ease Living Costs					
		-	-	-	Est. MYR3bn for fuel subsidy
Subtotal:		1,686	60	1,746	
Grand Total*:		8,944	8,430	17,374	

*Some numbers are based on UOB's estimates and assumptions. Owing to some non-disclosed numbers, total amount is below MYR20bn.

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