

# Macro + FX Strategy

## Malaysia: Nationwide Movement Control Order And Added Measures To Reinforce Stimulus Package

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- The government has imposed a nationwide movement control order from 18 - 31 March to address the COVID-19 outbreak. Malaysia has recorded 673 confirmed COVID-19 cases and first two deaths reported as at 17 March. It is not a complete lockdown order as core functions and essential services continue to operate. The movement control order prohibits mass gatherings, restrictions on entry of tourists and foreign visitors, closure of schools and education institutions, and non-essential government and private premises.
- The government reaffirmed they will proceed with the MYR 20bn economic stimulus package that was announced on 27 February. A unit will be established to implement and coordinate the stimulus package to ensure that the economic risks due to the COVID-19 pandemic can be managed. Other new measures worth MYR 620m were announced including 1) cash assistance for affected employees, and 2) electricity discount of 2% for domestic users.
- Going forward, the extent of the impact will depend on the effectiveness of this two-week control order to manage the COVID-19 outbreak and whether more stringent measures or extended restrictions are required. At this juncture, we expect economic growth in the 1Q20 to be negatively affected with potential spillovers to 2Q20. The economic weakness is not confined to just the two-weeks of movement controls as the effects of COVID-19 have been felt by the tourism and retail sectors since February. Other concerns include deepening global risks related to COVID-19 and tightening of USD liquidity. We have revised down our growth outlook for the major economies including US, China, and EU. As such, we are also slashing our 2020 forecasts for Malaysia's GDP growth to 2.4% (from 4.0% previously).
- Taking into account the expected growth slowdown and lower oil prices, we revise our USD/MYR forecasts to 4.35 in 2Q20 (from 4.11 previously), 4.30 in 3Q20 (from 4.08), 4.27 in 4Q20 (from 4.05), and 4.20 in 1Q21 (from 4.05).

### Economic Impact From COVID-19 and Global Weakness

Amid a sharp jump in the number of confirmed COVID-19 cases to 673 at 17 March, the government announced a nationwide movement control order from 18 - 31 March to manage the virus outbreak. Earlier Prime Minister Tan Sri Muhyiddin said the government estimates the country's GDP growth will decline between 0.8% and 1.2% off baseline forecasts, which is equivalent to between MYR10.8bn and MYR17.3bn. This follows reported weakness in tourism, airlines, hotels, and retail trade since February.

With the two-week movement control, the economic impact is expected to widen as broader segments of the services, manufacturing, and construction sectors will be impacted. However, there is a list of exclusions that covers essential services including utilities, irrigation, telecommunications, postal, transportation, oil and gas, broadcasting, finance and capital markets, banking, health, pharmacy, fire, prison, port, airport, safety, defense, cleaning, retail, and food supply. The exclusion also extends to sectors that support the essential services. The flow of goods and services including food supplies to neighboring Singapore will also continue. With that, we estimated close to 50% of key economic sectors are still functioning as core segments of the economy including industries that support the essential services are still operating. We also observe that consumption of essential goods has been brought forward ahead of this movement control order. Consumer spending on retail, food and beverage still continues as supermarkets and essential stores remain open. Restaurants are allowed to offer food delivery services but not dine-in.

Going forward, the extent of the impact will depend on the effectiveness of this two-week control order to manage the COVID-19 outbreak and whether more stringent measures or extended restrictions are required. At this juncture, we expect economic growth in the 1Q20 to be negatively affected with potential spillovers to 2Q20. The economic weakness is not confined to just the two-week movement control order as the effects of COVID-19 have been felt by the tourism and retail sectors since February. Other key concerns include deepening global risks related to COVID-19 and tightening of USD liquidity. We have downgraded our 2020 growth forecast for China to 4.1% (from 5.3% previously), whereby we now expect 1Q20 GDP to contract by 3.4% y/y. For the US, we have revised down 2020 full-year growth forecast to 0.6% (from 1.0% previously) with potential contractions in US GDP in the first and second quarter. As such, we also **mark down our 2020 forecasts for Malaysia's GDP growth to 2.4% (from 4.0% previously)**. During 2008/09 Global Financial Crisis, Malaysia saw three straight quarters of real GDP contractions (1Q09: -5.8% y/y, 2Q09: -3.7% y/y, 3Q09: -1.1% y/y) bringing full-year GDP to -1.5% in 2009 (2008: +4.8%).

#### Extra Measures To Reinforce Stimulus Package

The government reaffirmed they will continue with the [MYR 20bn economic stimulus package](#) that was announced on 27 February. A unit called the Economic Stimulus Implementation & Coordination Unit between Nasional Agencies (Laksana) under the Ministry of Finance will be established to implement and coordinate the stimulus package to ensure that the economic risks due to the COVID-19 pandemic can be managed. On 11 March, the government formed the Economic Action Council (EAC) comprising key senior officials and private sector individuals to meet on a weekly basis to review and announce new measures if necessary. Laksana will report the implementation status and achievements of these stimulus initiatives periodically to the EAC.

To reinforce the earlier measures, the government announced two new measures worth MYR 620m (on 16 March), namely 1) a cash assistance of MYR600 per month for affected employees who are forced to take no-pay leave starting from 1 March 2020. It is estimated to benefit 33,000 workers (worth MYR120m); and 2) an electricity discount of 2% for the industrial, commercial, and agriculture sectors as well as domestic users (worth MYR500m). The cash assistance of MYR600 per month will be provided for up to six months. We understand the cost of MYR120m for the cash assistance program is 50:50 shared by the government and the Employee Insurance Scheme (EIS).

As earlier announced under the MYR 20bn stimulus package on 27 February, the government reiterated that the second tranche of cost of living aid (BSH) for low income groups has been brought forward and paid out to 3.8 million households on 16 March. The top-up of MYR100 per BSH recipient will be paid in May. Also, MYR2bn worth of small projects focused on rural infrastructure and undertaken by small bumiputera contractors will start in April.

#### Risks To Government's 2020 Budget Deficit

Although the two new stimulus measures announced by the EAC is worth MYR 620m, we understand MYR 560m is funded through other non-government sources and the direct cost to government is only MYR 60m which should not materially affect the fiscal deficit. However given the collapse of global crude oil prices to around USD30/bbl and the rising need for a second stimulus package to address broader economic weakness, we expect the fiscal deficit to be much higher than the government's revised target of 3.4% of GDP.

The revenue losses from weaker oil prices is estimated to be MYR 6.0bn based on sensitivity of every USD10/bbl decline in crude oil prices will reduce the government's oil-related revenue by MYR 3.0bn. The government drafted its 2020 budget based on average oil price of USD 62/bbl and annual fuel subsidy of MYR 2.2bn. We expect Brent oil to average USD 36/bbl this year which implies a revenue loss of MYR 7.8bn which is offset by fuel subsidy savings of MYR 1.8bn assuming the government does not have to subsidise for the rest of the year. As such, this will increase the fiscal deficit by MYR 6.0bn or 0.3%-0.4% of GDP, bringing the 2020 fiscal deficit to 3.8% of GDP.

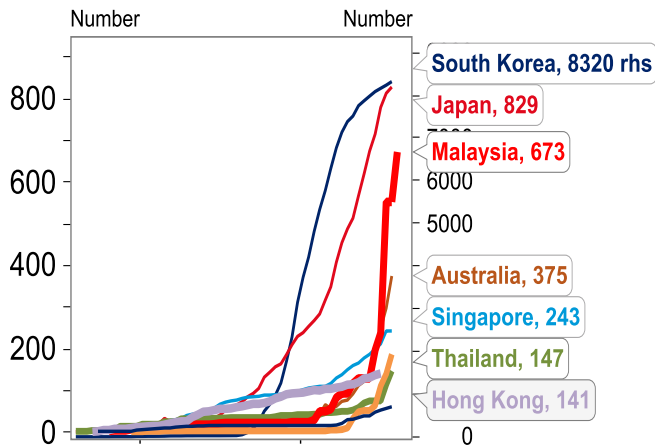
#### MYR Weighed By Growth Slowdown And Lower Oil Price

The Malaysian Ringgit, MYR too is not spared from the increasing fallout from the COVID-19 outbreak. USD/MYR rose sharply from 4.05 in late January to current levels of 4.33 alongside broad weakness in the Asian FX space due to the expected growth slowdown inflicted by the COVID-19 outbreak. A slump in Brent crude from US\$45 /bbl to \$30 /bbl after OPEC+ talks broke down in early March also compound MYR losses as Malaysia is net oil exporter.

Going forth, while ongoing deleveraging from Emerging Markets, Malaysia included could continue to put pressure on the MYR, the local economy and currency may be cushioned from the fiscal and monetary stimulus already announced. Amid already oversold conditions, we expect MYR to revert back to 4.35 in 2Q20. After which, a modest growth recovery in 2H20 as the COVID-19 outbreak shows signs of getting under control, brings USD/MYR point forecasts at 4.30 in 3Q20, 4.27 in 4Q20 and 4.20 in 1Q21.

## Sharp Jump In Malaysia's New Confirmed COVID-19 Cases

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



## Regional Comparison Of Fiscal And Monetary Policy Stimulus Measures As Of 16 March 2020

Source: Macrobond, UOB Global Economics & Markets Research

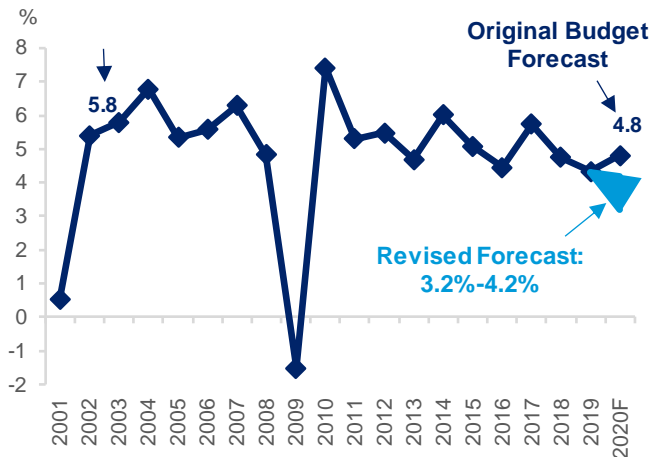
Country	Estimated Impact On Baseline GDP Forecasts* (ppts)	Fiscal Stimulus Package** (As Of 16 Mar 2020)			Policy Rate Cut In YTD 2020 (As Of 16 Mar) (-bps on Date)
		(LCY m)	(~ USD m)	(% of GDP)	
Japan	0.5 - 1.0	10,560	~ 96	0.002	-
S.Korea	0.5 - 1.0	11,700,000	~ 9,800	0.6	-50bps on 16 Mar
China	0.5 - 1.0	71,900	~ 10,270	0.1	1Y LPR: -10bps on 20 Feb 2020
Hong Kong	0.7 - 1.5	40,000	~ 5,135	1.3	- 150bps in Mar
Taiwan	0.0 - 0.5	60,000	~ 2,000	0.3	-
Singapore	0.5 - 1.0	800	~ 576	0.2	-
Malaysia	0.5 - 1.0	20,000	~ 4,762	1.3	-25bps on 22 Jan; -25bps on 3 Mar
Indonesia	0.1 - 0.2	33,400,000	~ 2,406	0.2	-25bps on 20 Feb
Philippines	0.2 - 0.5	27,100	~ 525	0.1	-25bps on 6 Feb
Thailand	0.5 - 1.0	To be announced in mid-Mar 2020			-25bps on 5 Feb
Vietnam	0.5 - 1.0	-	-	-	-

\*Assuming outbreak will last for 6 months until Jun 2020.

\*\*Only include measures that are purely to address the impact of COVID-19 outbreak, excluding respective country's annual budget initiatives.

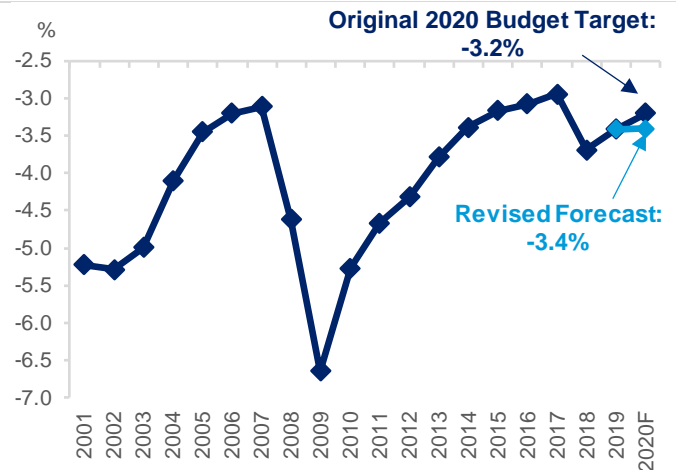
## Government Is Currently Projecting GDP Growth Of 3.2%-4.2% For 2020

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



## 2020 Fiscal Deficit Target Was Revised To -3.4% of GDP After The MYR20bn Economic Stimulus Package

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



## Financial Implication Of Malaysia's MYR20bn Fiscal Stimulus

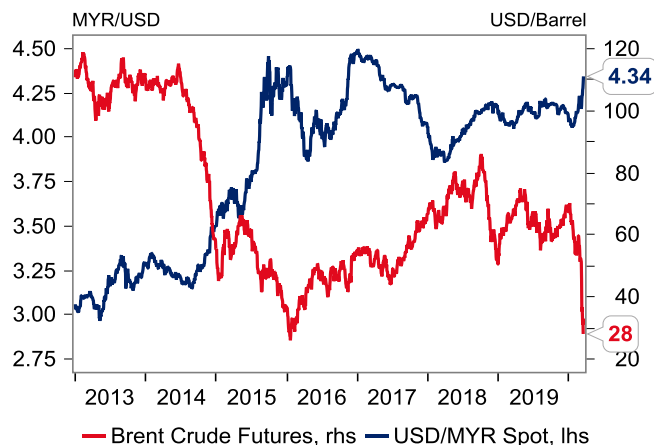
Source: PMO, UOB Global Economics & Markets Research

Fund	MYR bn
<b>Federal Government</b>	
- Small scale projects	2.0
- Other initiatives (including tax measures)	1.5
	<b>3.5</b>
<b>Loan funds</b>	<b>3.5</b>
- BNM's special relief facility	2.0
- BNM's agrofood facility	1.0
- BNM's SME automation & digitalization facility	0.3
- Bank Simpanan Nasional	0.2
<b>Other sources</b>	<b>13.0</b>
- EPF's minimum contribution by employees	10.0
- HRDF's matching grant	0.1
- Co-Investment fund	0.5
- Other undefined initiatives	2.4
<b>Total</b>	<b>20.0</b>

**Footnote:** The 2020 economic stimulus package involves additional expenditure by the federal government amounting to MYR3.0bn. The loan funds of MYR3.5bn refer principally to funds provided by Bank Negara Malaysia to provide soft loans, mainly to SMEs. Other sources amounting to MYR12.7bn relate mainly to the contribution arising from the reduction in the EPF minimum employee contribution rate.

## Performance of USD/MYR and Brent Oil Prices

Source: Marcobond, UOB Global Economics & Markets Research



## Two New Stimulus Measures Announced By Economic Action Council (EAC) On 16 March 2020

Source: EAC, UOB Global Economics & Markets Research

No	Stimulus Measure	Effective Period	Federal Govt Fund (MYR m)*	Non-Federal Govt Fund (MYR m)*	Total Amount (MYR m)*	New Measure (Yes/No)
1	A new monetary assistance for employees forced to take no-pay leave amounting to MYR600 per month for up to six months. Eligible employees are Employment Insurance Scheme (EIS) contributors with monthly salary of MYR4,000 and below, as well as with no-pay leave notice starting from 1 Mar 2020.	1 Mar 2020 - 31 Aug 2020	60	60	120	Yes
2	A discount of 2% on electricity bills for the industrial, commercial and agriculture sectors as well as domestic users for six months.	1 Apr 2020 - 30 Sep 2020	0	500	500	Yes
3	A payment of MYR200 to all Bantuan Sara Hidup (BSH) recipients scheduled for May 2020 will be brought forward to 16 Mar 2020, as announced in the earlier economic stimulus package.	16 Mar 2020	760	0	760	No
4	An additional MYR100 will be paid into the bank accounts of all BSH recipients in May 2020, as announced in the earlier economic stimulus package.	May 2020	500	0	500	No
5	Smaller projects amounting to MYR2.0bn announced in the earlier economic stimulus package will commence in Apr, focusing on rural infrastructure and undertaken by small bumiputera contractors. This will be overseen by the Chief Secretary of the government, who will give Prime Minister a weekly report.	from 1 Apr 2020	TBC	TBC	2,000	No
6	Finance Ministry has released Circular effective 16 Mar about the increase procurement threshold value for balloting from MYR50,000 to MYR100,000 and for quotations from MYR500,000 to MYR800,000.	-	-	-	-	No
<b>Grand Total:</b>			<b>1,320</b>	<b>560</b>	<b>3,880</b>	

\*Total amount is based on UOB's compilation from the official report, may not tally to the government's actual projection.

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