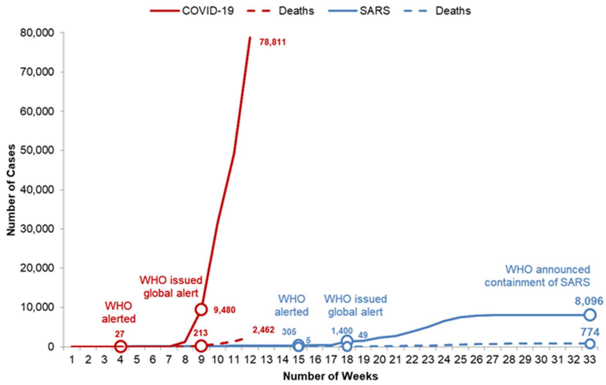
COVID-19: Fiscal Stimulus Package Preview

Swift and targeted, at least 0.6% of GDP to be set aside

- **Government is set to announce a stimulus package on 27 February to offset the damage to the economy arising from the COVID-19 outbreak.**
  - Businesses that are affected directly by the outbreak are being severely impacted, facing cash flow and financial constraints due to travel cancellations, a sharp drop in spending and investment as well as supply-chain dislocation. Affected companies need to act promptly in exploring alternative sources of revenue, minimising the short and long term impact on their operations.
  - Expeditious action: A swifter roll-out of fiscal measures this time around would be imperative to avert prolonged economic fallout. To recap, stimulus package announcement for SARS was two months after the first reported case in Malaysia compared to one month for the COVID-19 epidemic.

Graph 1: Cumulative Cases Globally



Source: Kenanga Research

- **Comparison of measures deployed during SARS in 2003 and Singapore's COVID-19 stimulus package:**
  - Malaysia's SARS stimulus package (RM7.3b; 2.0% of GDP): comprised of 90 measures designed to provide immediate relief to affected sectors. Measures include special relief guarantee facility, reduction of employees' EPF contribution, rental rates reduction at Malaysia Airport Holdings Bhd. premises and one-off reduction in road tax for taxis.
  - Singapore's COVID-19 stimulus package (SGD6.4b; 1.3% of GDP): amount exceeds its SARS stimulus package (SGD230m; 0.1% of GDP). Consists of stabilisation and support package (SGD4.0b) for workers and enterprises, care and support package (SGD1.6b) for households and fund for front-line agencies fighting the outbreak (SGD800m). Measures include wage cost incentives, corporate income tax rebates, one-off cash payout ranging from SGD100-300 for citizens aged 21 and above, as well as property tax rebates and rental waivers for sectors directly hit by the outbreak (i.e. tourism, aviation, retail, food services, point-to-point transport services).

Table 1: Malaysia's Date of Deployment of Stimulus

	SARS	COVID-19
First reported case	14 March 2003	25 January 2020
Stimulus package announcement	21 May 2003	27 February 2020

Source: Kenanga Research

Table 2: Malaysia's SARS Stimulus Package for the Services Sector (2003)

Beneficiaries	Measures	Effective Date
Tourism related sectors	– RM1b Special Relief Guarantee Facility	21 May 2003
Hotel operators	– 5% discount on electricity bills – Exemption of 5% government tax and Human Resource Development Fund (HRDF) levy – Exemption of import duty and sales tax on tele- and video-conferencing equipment	1 June – 31 Dec 2003
Travel agencies	– Suspension of income tax installment payments – Exemption of HRDF levy	1 June – 31 Dec 2003
Taxis	– One time reduction in road tax of 50%	Valid for 6 months
Retail, transport and other services	– Reduction of employees' EPF contribution by 2 ppt	One year from 1 June 2003
Operators of duty free shops in Malaysian airports	– 50% cut in rental rates for Malaysia Airport Holdings Bhd. premises	1 June – 31 Dec 2003

Source: BNM

- **Taking into account China's larger economic mass and deeper integration with the global supply chain, COVID-19 impact on the economy would be harsher than SARS's.**
  - Hence, after benchmarking against the above measures and basing upon a fiscal multiplier of 4.1 and an estimated loss of RM37.9b worth of economic activities in 2020, we expect the government to inject a bigger stimulus, with an estimated amount of between RM10.0b to RM15.0b (0.6-0.9% of GDP).
  - Package to be two-pronged: to provide support to businesses through cost reduction whilst encouraging consumption activity by securing and lifting disposable income.

Table 3: Projected Annual Loss in Economic Activities

Item	RMb
Tourist Receipts	13.5
Exports	12.8
Imports	11.4
Foreign Investment	0.2
Total	**37.9**

Source: Kenanga Research

  - Emphasis on non-monetary measures: to avoid further constraints on the public sector cash flow, the government may want to provide more focus on measures that would forgo future revenue, rather than those that would require them to fork out cash. These may include reduction in employees' EPF contribution rate from 11.0% to 8.0%, tourism tax break and commercial property tax break.
  - Special Relief Fund for SMEs: to be distributed among others in the form of soft loans, rebates for utilities bills and rental waivers, to ensure SMEs, which account for 98.5% of business establishments and over 66% of employment in Malaysia, are able to withstand the lull and low-business period as well as to retain employees.
  - Correcting structural issues: to incentivise productive business expenditure (e.g. upskill and reskill employees) in order to tackle longstanding issues such as low labour productivity through corporate tax rebates or wage-sharing schemes.

- **Fiscal deficit to widen, undershooting government 2020 fiscal target**
  - Based on our estimates and considering government current fiscal space, the stimulus package is expected to hit the government fiscal deficit by another 60-90bps to 4.3-4.6% from house deficit target of 3.7% (MOF: 3.2%). This is premised on the assumptions that average oil price would remain around USD60/barrel, projected revenue growth is unchanged and the GDP to grow at our baseline forecast of 4.0% this year.

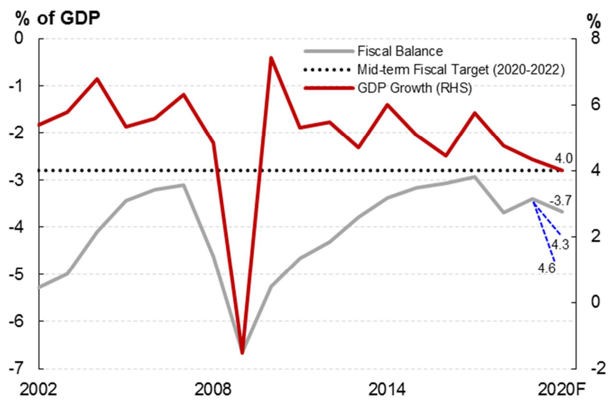
Table 4: Scenario Analysis for Stimulus Package

Stimulus Package	% of GDP	New Deficit	more/less
RM10,000	0.6%	-4.3%	-0.6%
RM15,000	0.9%	-4.6%	-0.9%

Source: Kenanga Research

  - Under the revised Medium-Term Fiscal Framework (MTFF) (2020-2022), the government forecasted real GDP to grow by 4.5-5.0%, while crude oil price to range between USD60-65/barrel, on average production capacity of 600,000 per day. Based on these assumptions, the government aimed to reduce the fiscal deficit to an average of 2.8% of GDP for the three-year period. For 2020, the government's deficit target is 3.2% and average crude oil price assumption is USD62/barrel.

Graph 2: Fiscal Balance Vs GDP Projections

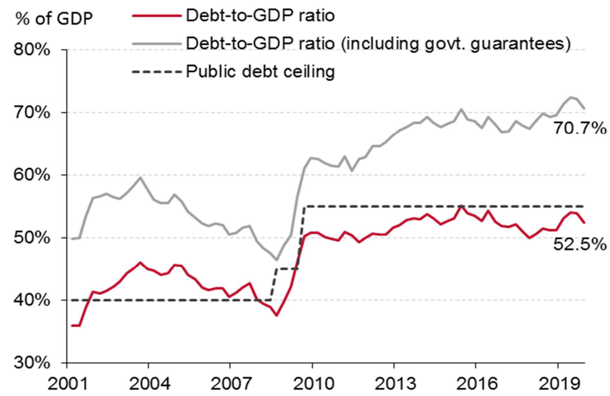


Source: Kenanga Research

  - The government may have to be realistic and adjust its forecast accordingly as global economic recovery is expected to be delayed, dragged by the COVID-19 outbreak which has now spread to 25 countries, impacting the services and manufacturing sectors via the extensive value supply chain. Furthermore, the demand for crude in China has dropped by 20.0% since the start of the epidemic. Brent crude oil price is currently trading below USD60/barrel amid muted global demand. It hit a low of USD53.3/barrel on February 10 at the onset of the COVID-19 outbreak.
  - Overall, the deficit arising from the stimulus package might raise the debt-to-GDP ratio by up to 230bps, from 52.5% in 2019 to 54.8% this year as the government raises bonds to partly finance the deficit. Nonetheless, this would remain slightly lower than the government's self-imposed debt threshold of 55.0%.

- The house views that the level of deficit would remain manageable at this current condition as the stimulus measures would be able to mitigate the potential adverse impact of the virus outbreak while supporting domestic growth going forward. In normal circumstances, this may trigger a sovereign rating reassessment or even a downgrade. However, the risk of a rating adjustment is minimal as rating agencies would see this as an exceptional situation. Going forward, the best-case scenario would be a V-shape recovery if the virus is contained and pent up demand ensues. But if the virus continues to spread and affect other countries in a big way apart from China, we may see a U-shape growth trend or a longer-than-expected recovery pace.

Graph 3: Debt-to-GDP Ratio Trend



Source: Kenanga Research

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