# COVID-19: Funding the Stimulus

## Stretching the limits

**Summary**

- In terms of share of GDP, Malaysia's stimulus package is relatively large compared to other ASEAN economies, standing at 17.6% of GDP (SG: 12.0%; TH: 12.0%; ID: 2.5%).
- As the impact of COVID-19 pandemic is unprecedented, ASEAN countries have relaxed their fiscal and monetary rules while intend to finance their stimulus package almost entirely through domestic debt.
- Although it may have additional support measures should the pandemic situation worsens, hindering economic activities for a prolonged period, we view that the federal government has limited fiscal space. It leaves the government with little choice but to borrow more.
- Whilst retaining compliance to the three statutory debt limits, the government has an estimated remaining debt space of RM15.2b (1.0% of GDP) should the need for additional fiscal injection arise.
- Issuance of additional debt is feasible as the banking system has ample liquidity to absorb the debt (statutory agencies' banking system deposits: RM78.2b, outstanding excess liquidity placed with BNM: RM156.0b, temporary BNM financing: RM30.6b).
- Lessons can be learned on how Singapore able to tap into its well-managed national reserves in times of emergency.

- **Malaysia has issued a total of RM260.0b (17.6% of GDP) stimulus package to weather the economic damages arising from the COVID-19 pandemic**
  - RM20.0b: schemed to mitigate the impact of COVID-19, stimulate people-centric economic growth and foster quality investments.
  - RM230.0b: out of total, RM128.0b will be used to protect and sustain the livelihood of the citizens, RM100.0b to provide breathing space to businesses and RM2.0b to stimulate the economy.
  - RM10.0b: additional allocation provided to the Small & Medium Enterprises (SMEs) to help ease the financial strain and reassure that 66.2% of the labour force will remain employed.
  - Overall, direct fiscal injection amounted to RM35.0b (2.4% of GDP) and is expected to be financed via government borrowings, lifting up the nation's fiscal deficit to 5.6% (MoF: 4.7%; 2019: 3.4%) of GDP amid lower oil price and weak economic growth.

- **As a share of GDP, Malaysia's stimulus package is larger compared to other major ASEAN economies**
  - Singapore: The government committed a fiscal injection worth SGD59.9b (USD42b or 12.0% of GDP), subsequently raising its fiscal deficit projection to 8.9% for this year. The stimulus includes tapping into its past reserves amounting to SGD21.0b (USD14.5b).
  - Indonesia: The government has temporarily scrapped its fiscal rules, allowing Jokowi's administration to exceed the legal limit of its budget deficit of 3.0%. The government has set aside a fiscal stimulus worth IDR436.1t (USD26.4b or 2.5% of GDP), raising its budget deficit forecast to 5.1% of GDP. A large chunk of the stimulus will be funded via issuance of pandemic bonds together with IDR-denominated bonds and sukuk.
  - Thailand: The government approved its third stimulus package totalling THB1.9t (USD58b or 12.0% of GDP), likely to exceed its initial fiscal deficit target of 2.7% for this year. Of the total, THB1.0t will be financed through bond issuance (mostly THB-denominated), while remaining THB900b via central bank measures in the form of soft loans and corporate bonds purchases.

**Table 1: ASEAN Stimulus Package Comparison**

| | Total (local currency) | % of GDP | New fiscal deficit (% of GDP) |
|---|---|---|---|
| **Malaysia** | RM260.0b | 17.6* | 4.7 |
| Singapore | SGD59.9b | 12.0 | 8.9 |
| Indonesia | IDR436.1t | 2.5 | 5.1 |
| Thailand | THB1.9t | 12.0 | n/a |

**Kenanga Research preliminary forecast*
*Source: MoF, news from Bloomberg, Reuters,etc*

- **Although it may have additional support measures should the pandemic situation worsen, hindering economic activities for a prolonged period, we view that the federal government has limited fiscal space.** Generally, a fiscal stimulus could come from budget surplus or, in some cases, a drawdown from a national reserves. But, if a country's balance sheet is still saddled with a deficit then issuing debt to finance the stimulus may only be the main option.

**Table 2: Statutory Debt Limit (RM bil)**

| | Domestic (MGS,MGII, MITB) | External (foreign currency debt) | Conventional Treasury Bills (MTB) |
|---|---|---|---|
| **Outstanding Debt (Mar-20)** | 763.2 (51.6% of GDP) | 29.4* | 3.5 |
| **Statutory Limit** | 55.0% of GDP | 35.0 | 10.0 |
| **Balance** | **49.6** (3.4% of GDP) | **5.6** | **6.5** |
| **Estimated Overall Balance** | | | **61.7** |

** estimate*
*Source: BNM, Ministry of Finance, Kenanga Research*

- **Debt issuance as an option to finance stimulus - Is it enough?**
  - The Malaysian federal government debt is governed in accordance to three statutory debt limits:
    - Domestic debt: according to the Loan (Local) Act 1959 and the Government Funding Act 1983, debt raised domestically, specifically Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII) and Malaysian Islamic Treasury Bills (MITB), should not exceed 55.0% of GDP (outstanding debt as at Mar-20: 51.6%).
    - External debt: under the External Loans Act 1963, foreign currency debt is restricted to RM35.0b (estimated outstanding debt as at Mar-20: RM29.4b).
    - Conventional treasury bills (MTB): the Treasury Bills Act 1946 caps the issuance of MTB at RM10.0b (outstanding debt as at Mar-20: RM3.5b).
  - With a forecasted debt of RM869.0b by end-2020 and an estimated outstanding debt as at Mar-20 of RM822.5b, the balance of net debt issuance for the remainder of the year is around RM46.5b, registering below the leftover debt space at an estimated RM61.7b, allowing the government to maintain its compliance to the aforementioned debt limits. In fact, the government still have a remaining fiscal space of about RM15.2b (1.0% of GDP), should the need for additional fiscal injection arises.
    - Malaysian government debt remains attractive among investors amid low interest rate environment in the advanced economies. In 2019, the government issued RM135.2b gross debt comprising 94.5% of domestic borrowings and another 5.5% of foreign borrowing (samurai bond). It is worth noting that the government received RM190.9b bid within the first eight months in 2019, far larger than the amount of total gross debt needed. Based on the current deteriorating economic condition and market sentiment, this year, we expect gross debt issuance to register between RM130.0b and RM150.0b.
  - From the liquidity perspective, data suggests that the banking system condition remains conducive, with adequate funds to support financial intermediation
    - Outstanding excess liquidity placed with BNM: RM156.0b (as at Mar-20). This could be expanded further, as we view that the BNM has a room to lower the Statutory Reserve Requirement ratio (SRR) by another 100 basis points (bp) to match the Global Financial Crisis-low of 1.00% (Mar-09), releasing an estimated RM17.0b (1.1% of GDP) worth of liquidity into the market. This gives a rather sizeable impact as the statutory deposits account for almost 30.0% of the excess liquidity. Of note, previously in March, the SRR was reduced by 100 bp to 2.00% and dealers were granted flexibility to recognise MGS and MGII of up to RM1.0b as part of the SRR compliance. BNM estimated the move to result in a RM30b (2.0% of GDP) worth of liquidity injection into the system.
    - Banking system deposits held by statutory agencies: RM78.2b (as at Feb-20)
    - Temporary BNM financing: section 71 of the Central Bank of Malaysia Act 2009 allows the BNM to extend temporary financing (maximum 12.5% (RM30.6b) of the projected revenue (RM244.5b: stated in the federal government's budget tabled in the Parliament) to the government due to revenue deficiencies. The government is obligated to repay BNM no later than three months after the end of the financial year the financing was made and BNM cannot extend any further temporary financing until the outstanding amount is fully repaid.

- **National reserve drawdown as an option**
  - Singapore is among the few if not the only country in the world that has so far tapped into its national reserves to support its economy and to combat the negative impact brought about by the COVID-19 pandemic.

- On March 26, Singapore President Halimah Yacob has given her principle support to tap SGD17.0b from its past reserve, which comprised of accumulated reserve from the Monetary Authority of Singapore (MAS), Temasek Holdings Pte and the Government of Singapore Investment Corporation (GIC). Then on April 6, in the third round of its economic stimulus the Singapore government also have drawn down an additional SGD4.0b from the country's past reserve, bringing the total to SGD21.0b.

**Table 3: Official Reserve Comparison**

| | | | Reserves Traditional Measures | |
|---|---|---|---|---|
| **Country** | **Reserve Drawdown** | **Official Reserve** | **Ratio (Reserves/M2)** | **Import cover** |
| BNM | - | USD101.7b* | 21.73% | 7.7 months |
| MAS | - | USD279.1b* | 60.02% | 9.9 months |
| Temasek | - | >USD200.0b# | NA | NA |
| GIC | - | >USD100.0b# | NA | NA |
| SNR | SGD21.0b | NA | NA | NA |
| **BIS Benchmark** | - | - | 20.00% | 3.0 months |

*Source: CEIC, MAS, BNM, BIS, *Data as of end-Mar 2020,*
*# From keynote speech by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, at the National Asset-Liability Management Europe Conference, Singapore, 13 March 2019*
*SNR: Singapore's National Reserve*

- The last time Singapore tapped its reserves was in January 2009, when the economy faced a recession during the global financial crisis. At that time, it delivered a SGD20.5b stimulus package, and drew down reserves by SGD4.9b. After the economy recovered, putting its fiscal position on a stronger footing, in February 2011, the government decided to put back the SGD4.0b that it had drawn down from the past reserves.

- Income from national reserves and investments managed by GIC, Temasek and the Monetary Authority of Singapore is one of the largest contributors to government revenue, accounting for one-fifth of revenues. Under the Net Investment Returns Contribution framework, the government can spend as much as half of the long-term investment returns generated by the MAS, Temasek and GIC. In the latest budget, the contribution from the framework is estimated at SGD18.6b (USD13.4b) for 2020, 9.3% higher than the previous year.

- GIC was set up in 1981 to manage part of the reserves for higher returns without the central bank constraints of liquidity. It was tasked to invest the reserves in a globally diversified portfolio of asset classes with a higher risk profile to deliver good long-term returns.

- Hence, against the backdrop of an unprecedented economic downturn and premising on the reserves' purpose of supporting the country, not only during a financial crisis, but also in the event of a national disasters or emergencies, we opine that it can perhaps emulate Singapore's best practice of managing its reserves. Perhaps there is a need to relook, among others, at section 68 of the Central Bank of Malaysia Act 2009, whereby it broadly states that BNM shall hold and manage the foreign reserves in line with the policies and guidelines established by the Board. More empathy on the welfare of the people or rakyat should be considered as part of the policy objectives in times of need apart from playing a role to ensure a stable and sound financial system.

**For further information, please contact:**

**Wan Suhaimie Wan Mohd Saidie**
Head of Economic Research
wansuhaimi@kenanga.com.my

**Atiqa Noor Azlan**
Economist
atiqa.noorazlan@kenanga.com.my

**Muhammad Saifuddin Sapuan**
Economist
saifuddin.sapuan@kenanga.com.my



Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my