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Global Markets Research

Research Alert

Malaysia: Lockdown and PEMULIH

- **RM150bn PEMULIH aid package with fiscal injection of RM10bn**
- **Reducing the pressure on monetary policy easing**
- **Smallish fiscal injection sooths funding concerns but widening fiscal shortfall is imminent**

Summary

The Prime Minister of Malaysia announced a RM150bn Pakej Perlindungan Rakyat dan Pemulihan Ekonomi (PEMULIH) aid package on 28 June 2021 to help lessen the impact of the extended lockdown, now dubbed Phase 1 of the National Recovery Plan (NRP). Targeting to benefit a wider spectrum of individuals, households and businesses, this package amounted to around 10% of GDP and brought YTD Covid-19 related economic packages for Malaysia to a whopping RM530bn, or 36% of GDP (Figure 1). Fiscal injection from PEMULIH is however kept minimal at RM10bn, soothing funding concerns.

This aid package is timely and much needed to ease the immediate pain of those impacted by the extended lockdown. As defined by the NRP announced on 15 June, all the three criteria (1) daily cases below 4k; (2) moderate ICU beds utilization level; and (3) full vaccination in 10% of the total population, must be met in order to migrate from Phase 1 to Phase 2. Given the fluidity of the situation, the government did not lay down a specific date when it announced an extension of Phase 1 on 27 June, contrary to the usual two-week timeframe.

Three-pronged approach of PEMULIH

Similar to previous economic aid packages, PEMULIH focuses on three spectrums: (1) upholding the public's agenda; (2) supporting businesses; and (3) expediting the national vaccination programme. Key features which we believe carries the most weight in helping relieve individuals and businesses from fallout from the current lockdown situation include further cash handouts, EPF i-Citra withdrawal, loan moratorium for individuals and SMEs, and enhanced wage subsidy programme (PSU 4.0) that allows each employer to support up to 500 employees of any salary bracket, at a rate of RM600 for each worker for four months.

Cash assistance & EPF i-Citra withdrawal

Cash assistance totalling RM10bn via Bantuan Prihatin Rakyat (BPR) and Bantuan Khas Covid-19 (BKC), will be paid out to the hardcore poor, B40 and M40 categories in stages from now until the end of the year. Given the high propensity to consume by this group, we expect some positive boost to private consumption. This, coupled with the maximum RM5k withdrawal from total EPF savings (Account 1 and 2 combined) for all EPF members below 55 years old under i-Citra at RM1k per month over five months, as well as the automatic approval of 6-month loan moratorium for individuals

Figure 1: Malaysia Covid-19-Related Economic Packages

	Economic Package (RMbn)	Additional Fiscal Injection (RMbn)
PRE (Feb-20)	20.0	3.2
PRIHATIN (Mar-20)	230.0	21.8
PRIHATIN SME+ (Apr-20)	10.0	10.0
PENJANA (Jun-20)	35.0	10.0
KITA PRIHATIN (Sept-20)	10.0	10.0
PERMAI (Jan-21)	15.0	0.0
PEMERKASA (Mar-21)	20.0	11.0
PEMERKASA+ (May-21)	40.0	5.0
PEMULIH (Jun-21)	150.0	10.0
Total	**530.0**	**81.0**

Source: MOF and various sources

who applied, would certainly alleviate cashflow especially individuals whose income is affected by the current restrictions and pandemic.

Downside growth risks prevail

This latest aid package is expected to help cushion the economic fallout by approximately half from the 0.7ppt we estimated for every fortnight of such lockdown, but will not eliminate downside risks to growth entirely. We are downgrading our full year 2021 growth forecast to 3.7% (prior 5.0%) and will be monitoring the development on infectivity and vaccination rates closely. Any extension of prolonged Phase 1-style lockdown would inevitably pose downside risks to overall recovery prospects of the Malaysian economy.

Increased fiscal spending reduced the urgency for an OPR cut

Further expansion in fiscal policy has reduced odds of further easing on the monetary policy front in our view. This should allow BNM to adopt a wait and see approach by keeping OPR unchanged at its next MPC meeting on 8-July, pending greater clarity on development of the pandemic, severity of the economic fallout, and effectiveness of the latest round of policy measures. Depending to a great extent of how these will pan out, we believe odds of further policy easing could not be entirely ruled out in the months ahead.

Little impact on funding but imminent widening in fiscal shortfall

With fiscal injection being kept to a smallish RM10bn, the latest PEMULIH aid package is not expected to have any material impact on funding requirements and federal government debt. Similar to the previous PEMERKASA+ package, we believe this will be funded by spending reprioritization/ reallocation, and additional oil revenue, and to a lesser extent, additional issuances. The government still has RM18bn untapped Covid-Fund which can be utilized (RM8bn from this year's budget and RM10bn from 2022). No change to our gross government bond supply estimate of RM152.5bn for 2021, which should augur well with the local bond market although imminent widening in fiscal deficit closer to the 6.8-7.0% mark could potentially renew some sovereign rating downgrade concern.

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