SIDC Webinar: Bracing for Economic Impact Post Global Pandemic

LEE HENG GUIE
Executive Director, SERC
12 August 2020

SIDC
www.sidc.com.my

Disclaimer

- The views expressed here are solely those of the speaker in his private capacity and do not in any way represent the views of the Securities Industry Development Corporation (SIDC) or the Securities Commission Malaysia (SC).

- The cases mentioned in this presentation have been prepared, cited or described on the basis for discussion rather than to illustrate either effective or ineffective handling of a business situation.

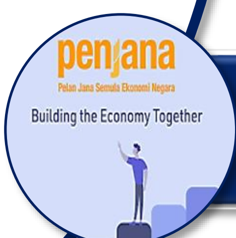
- Cases that are under investigation will not be discussed or commented on.

- No part of this presentation may be reproduced, stored in a retrieval system or transmitted in any form or by any means without the permission of the SIDC.

Outline

Predictions of the World Economy Post COVID-19 Pandemic

Malaysia's Post MCO Recovery Tracker



Rebooting Malaysia – Recovery, Revitalise and Reform

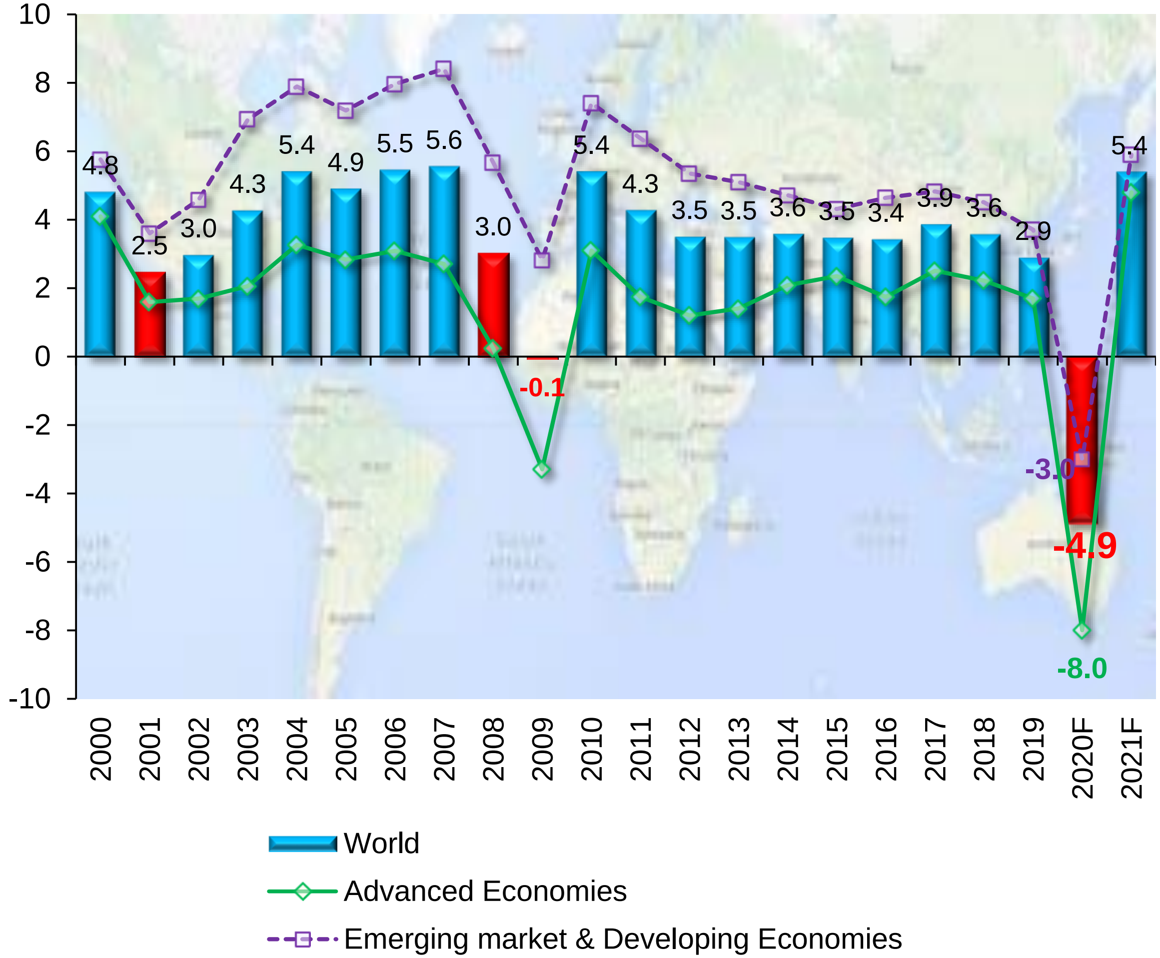
Predictions for the Global Economy

As the global economy emerges from COVID-19 pandemic. Governments are grappling with policies:

- ***How to move forward, how to recover growth?***
- ***How much structural adjustment to make?***
- ***How long to maintain the financial support?***

“Extraordinary Uncertain” path to global recovery

Real GDP Growth (%)



- An uneven and gradual recovery.
- Global activity in 1H 2020 has experienced a synchronised sharp contraction greater than anticipated.
- Lingering risk of an occurrence of a third wave of coronavirus.
- The question is how effective the policy countermeasures to limit collateral economic damage?

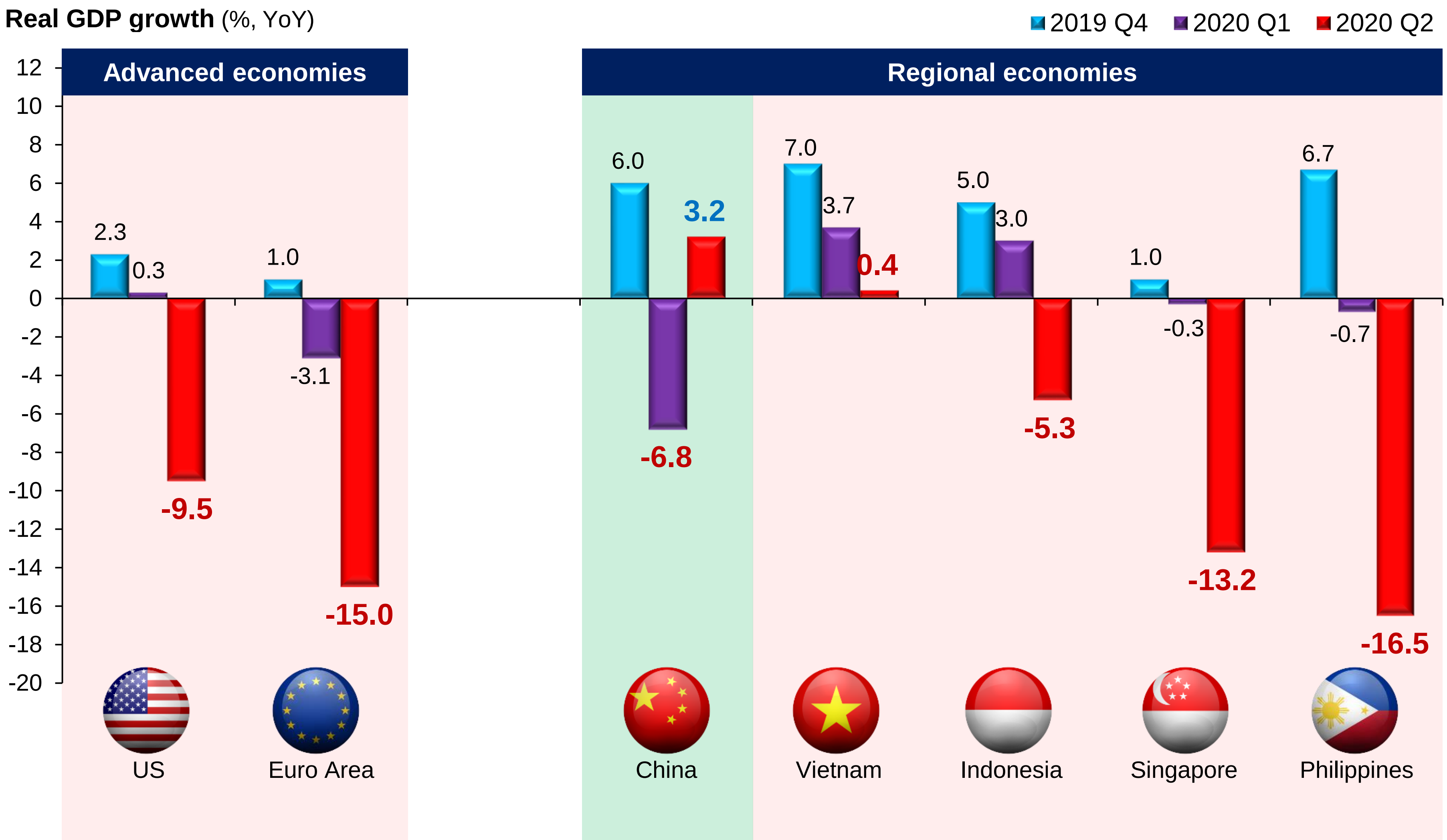
Source: IMF (WEO Update, Jun 2020)

Global growth scenarios for 2020-2021*

Scenario		Projected global GDP growth in 2020	Projected global GDP growth in 2021
Upside 	• Global growth stabilisation and recovery. Disruptions from pandemic fade in 2H • COVID-19 outbreak is contained in 2H 2020. Hopeful vaccine will be found in 2021 • Monetary and fiscal stimulus are working	**0.5%**	**5.0%**
Base Case 	• Global stabilisation and moderate recovery in 2H 2020 • A prolonged COVID-19 outbreak, disrupted supply chains, financial turbulence; geopolitical shocks • Monetary and fiscal stimulus are working	**-3.0%**	**4.5%**
Downside 	• Deeper global recession • Deepening impact from a prolonged COVID-19 outbreak • Ineffective monetary and fiscal policy stimulus • Sharp correction in global equities and commodities market	**-5.0%**	**2.0%**

* SERC's estimates

Global outlook – Worst may be over in 2Q 2020, but recovery far from certain



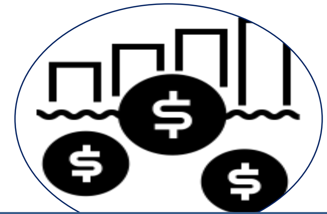
Source: Officials (unadjusted data except Euro Area)

Decoupling of real economy from stock market

Extraordinary interventions by governments and central banks

KEEP the system from imploding

KEEP people who've lost jobs from real desperation



STOP companies' liquidity problems and sovereignty problems

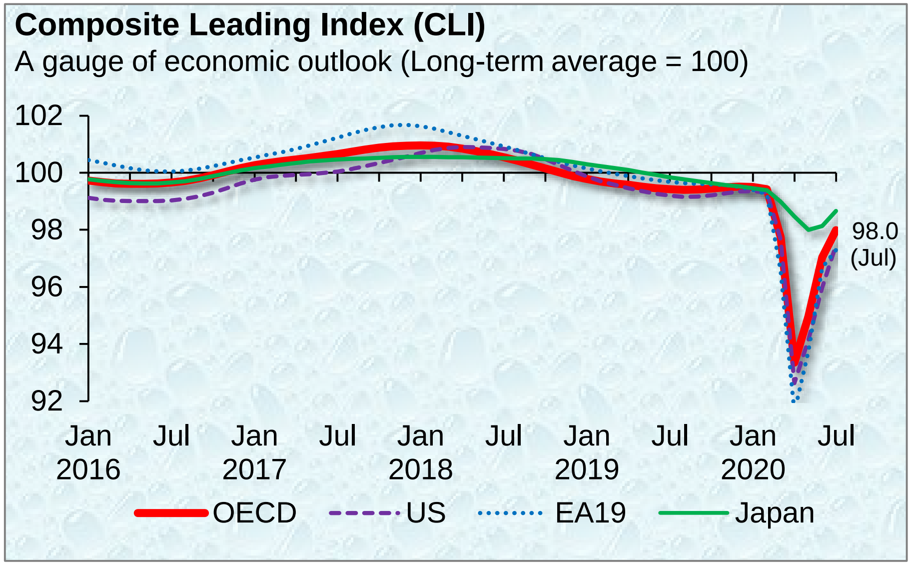
A V-shaped recovery in stock market but not for global economy

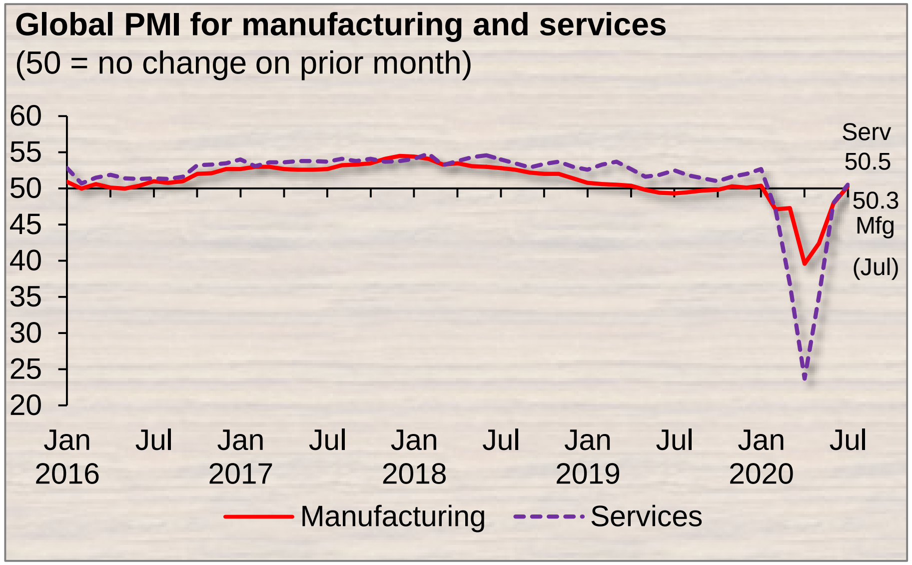
- SOME CAPACITY DESTROYED OR DECREASED CAPACITY
- MASSIVE JOB CUTS AND INCOME LOSS
- DECLINE IN PRODUCTIVITY
- REDUCED INVESTMENT

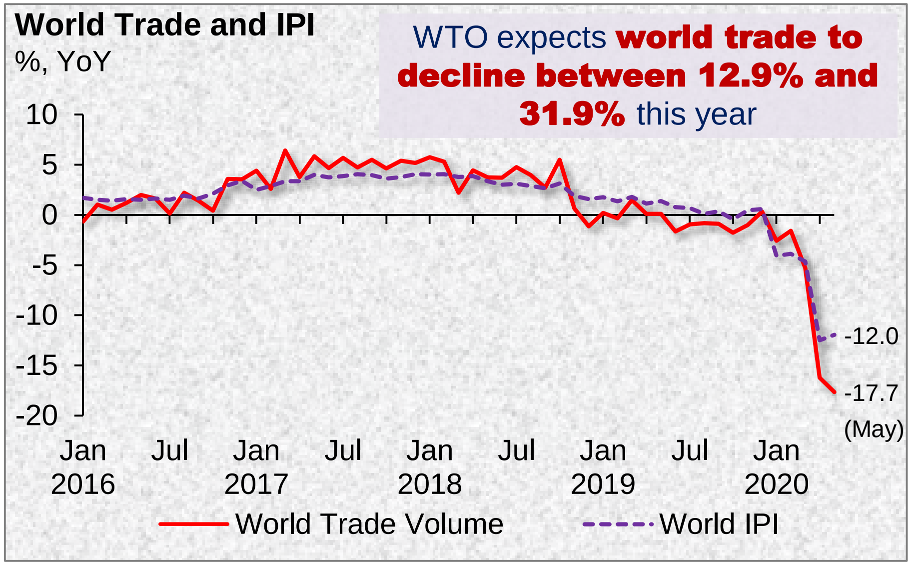
Three indicators to ascertain the strength of recovery

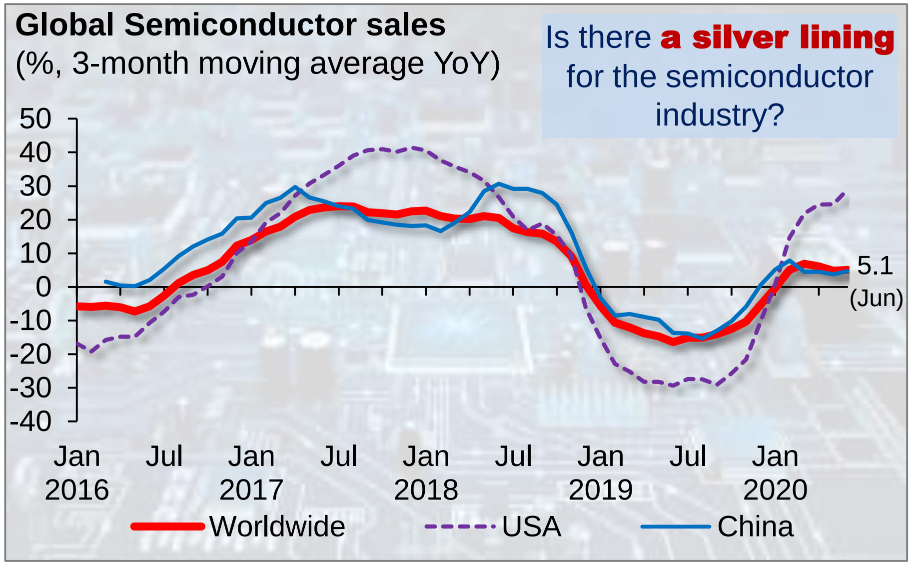
1. CONSUMER SENTIMENT AND SPENDING
2. UNEMPLOYMENT AND WAGE GROWTH
3. PURCHASING MANAGERS' INDEX (PMI) FOR MANUFACTURING & SERVICES

Steepest economic slump has bottomed out in 2Q 2020



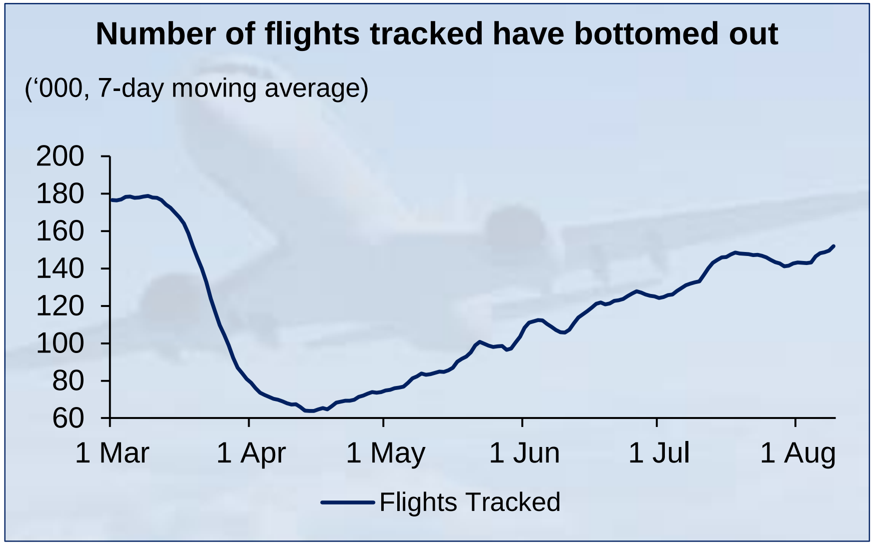


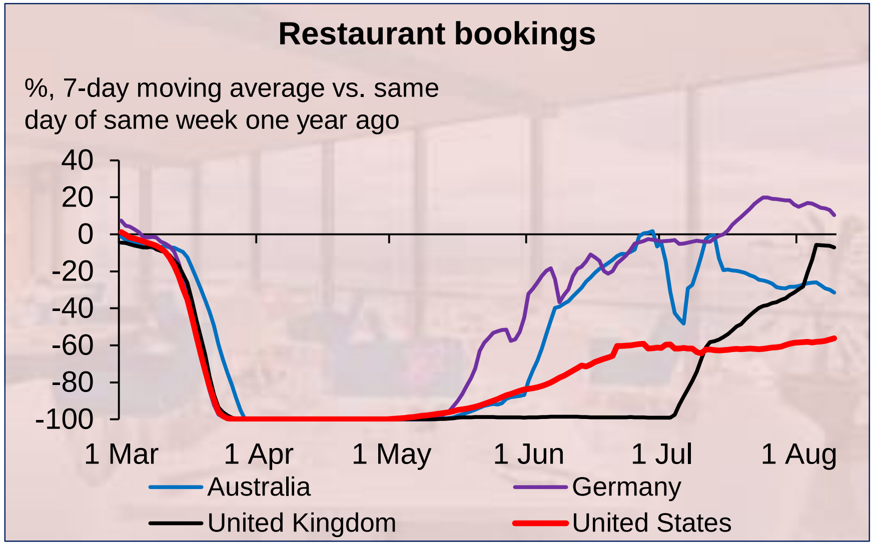


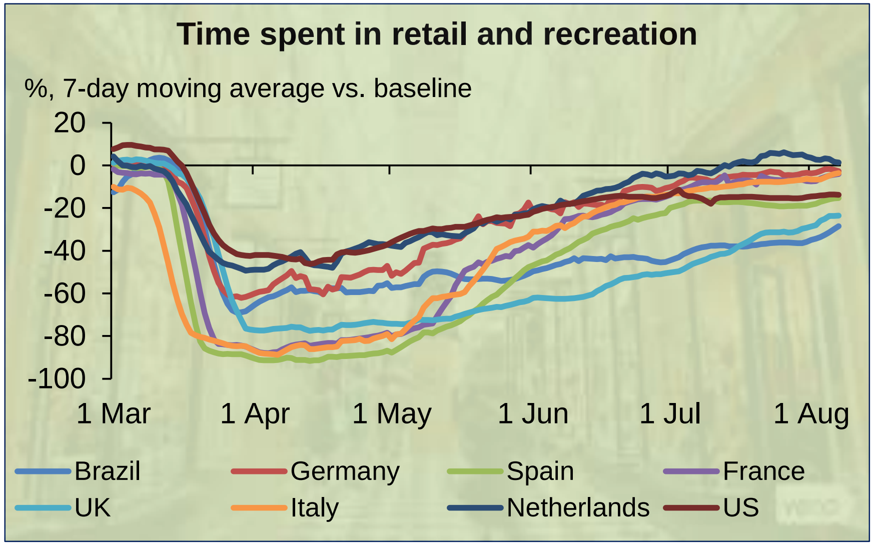


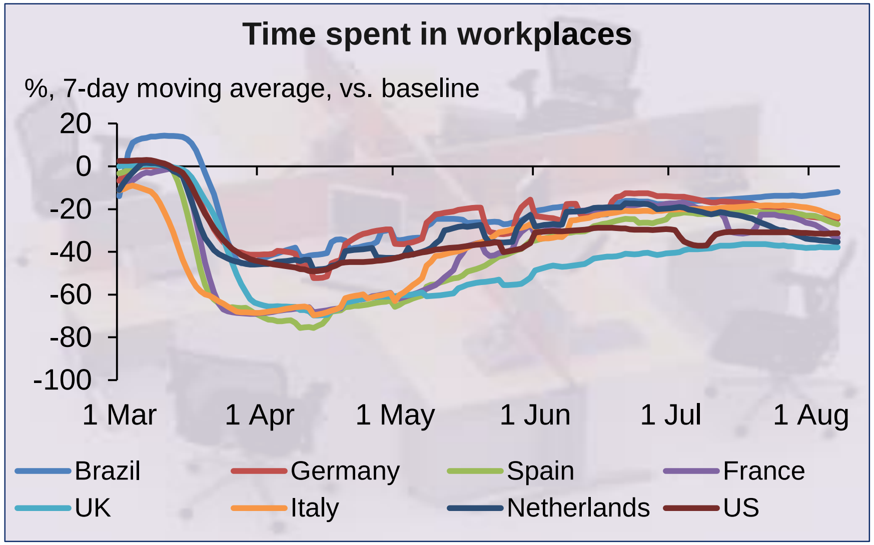
Source: OECD; IHS Markit; SIA

Post-Great Lockdown: Global mobility tracker



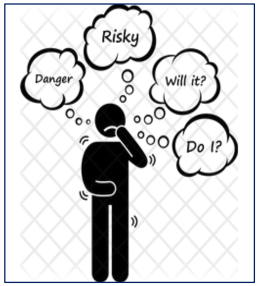


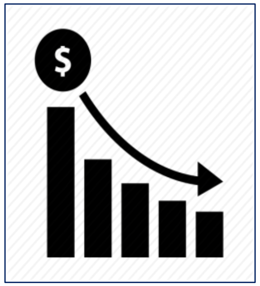


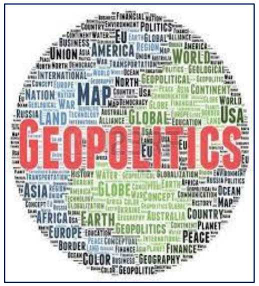


Source: Flightradar24; OpenTable; Google Mobility (baseline = median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)

Developments that would trigger a reversal in riskier assets' prices







1. **A protracted and deeper recession than anticipated.** *Stemming from a third wave of infections, compelling more restricted movements and containment measures*

2. **Investors pare down expectations and lower optimism** *about the central banks' continued liquidity support*

3. **Investors reassess their appetite and pricing of risk** *on worse-than-expected corporate earnings. Assets' repricing could result in a sharp tightening in financial conditions, causing stock market volatility*

4. **Renewed trade/technology tensions as well as strained bilateral relations between the US and China**

5. **The US Presidential Election outcome in November** *and potential policies' ramifications*

6. **Geopolitical tensions** *could lead to a reversal in investors' sentiment*

The Malaysian Economy

Aggressive policy responses to limit economic repercussions

- ***PRIHATIN & PENJANA: RM295bn or 21.1% of GDP (contributes 3.0%-4.0% pts to GDP growth)***
- ***Direct fiscal injection: RM45.0bn or 3.2% of GDP***

Economic Stimulus Package

PRIHATIN's measurable impact:

Saved 2.8 million jobs

- Wage Subsidy Programme
- Employment Retention Programme

Eased more than 10 million individuals' cash flow burden

- Bantuan PRIHATIN Nasional (BPN)
- Loans moratorium
- EPF's i-Lestari

Supported 800,000 businesses and micro SMEs

- Various financial assistance
- Loans moratorium

Many businesses still concerned about 3Cs and struggling to cope several challenges:

Cash flow

Costs

Credit

THREE MAIN ISSUES/CHALLENGES

76.6%
Salary payment

65.5%
No customers

61.4%
Rental payment

IMMEDIATE CHALLENGES	➢ Revive demand ➢ Supply disruptions ➢ Cash flow problem ➢ Operating costs
STRUCTURAL CHALLENGES	➢ Consumer behaverioul protocols ➢ Standard Operating Procedures ➢ Intense competition in online business and e-commerce

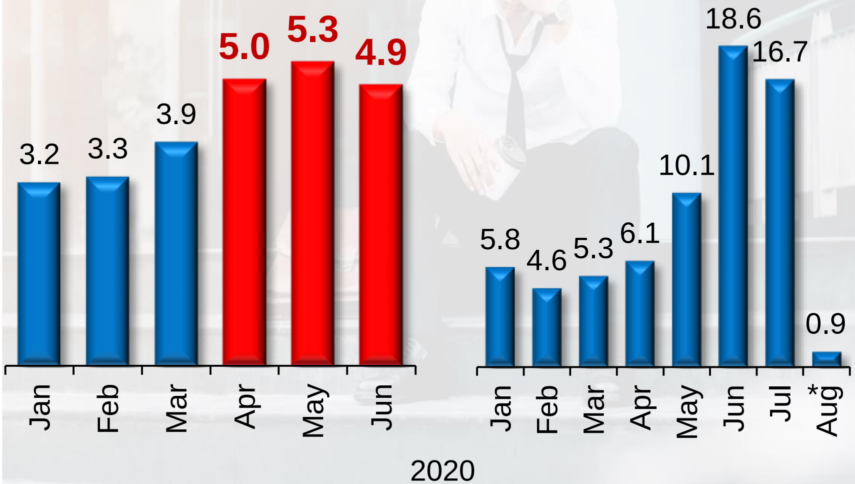
Source: PENJANA Short-Term Economic Recovery Plan; DOSM Special Survey on COVID-19 Impact on Business Sector (10 Apr -1 May)

Malaysia's post COVID-19 recovery tracker

Unemployment

Unemployment Rate
%, YoY

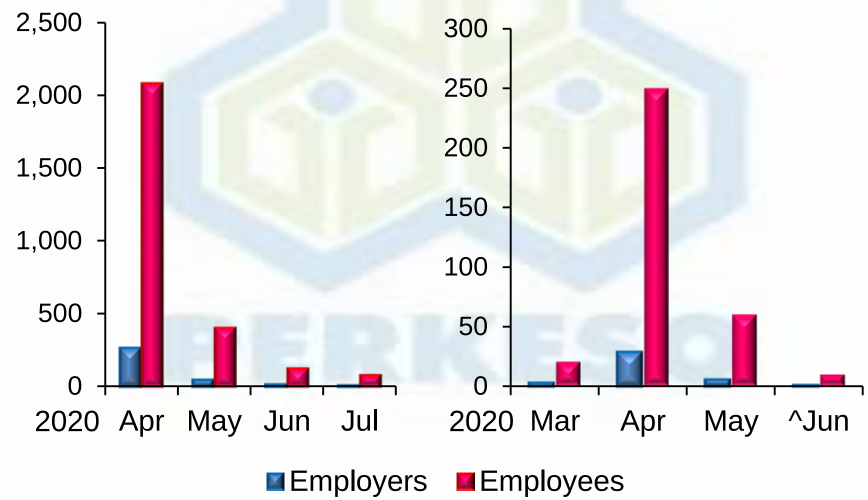
Loss of Employment
('000)



Job savings program

Wage Subsidy Program (WSP)
('000, applications)

Employment Retention Program (ERP)
('000, applications)



- **Unemployment rate, which hit a record 5.3%** in May**, has moderated to 4.9%** in June, signaling a peak?
- **Loss of employment seen peaking**. EIS data (Jan-3 Aug 2020): **67,955 persons loss of employment** (40,084 in Jan-Dec 2019)@
- Job losses may ease as business activities are gradually on the mend.

* As of 3 August

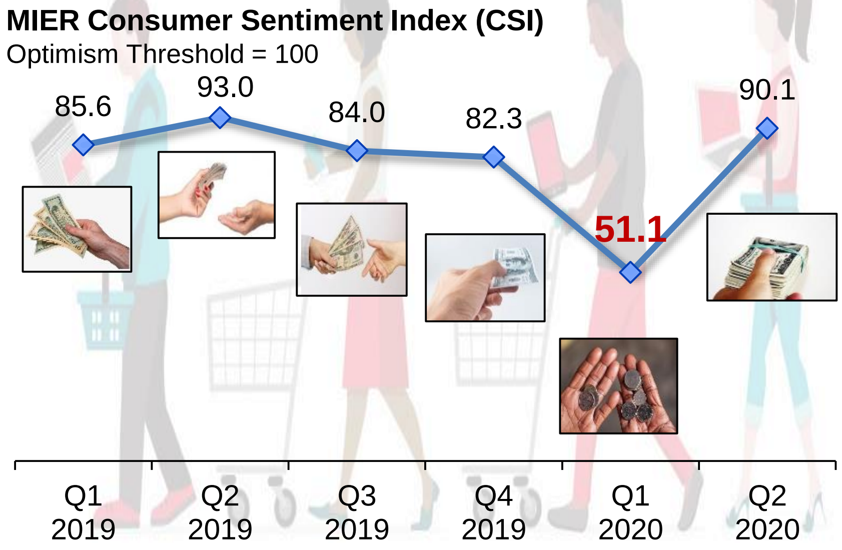
- **2.8 million jobs saved** (2.6m via WSP; 0.2m via ERP)
- Both the number of employers applied and employees benefited from WSP and ERP moderated sharply from May onwards
- **ERP** (wage subsidy on no pay leave) **may presage the potential loss of employment**

^ As of 21 June

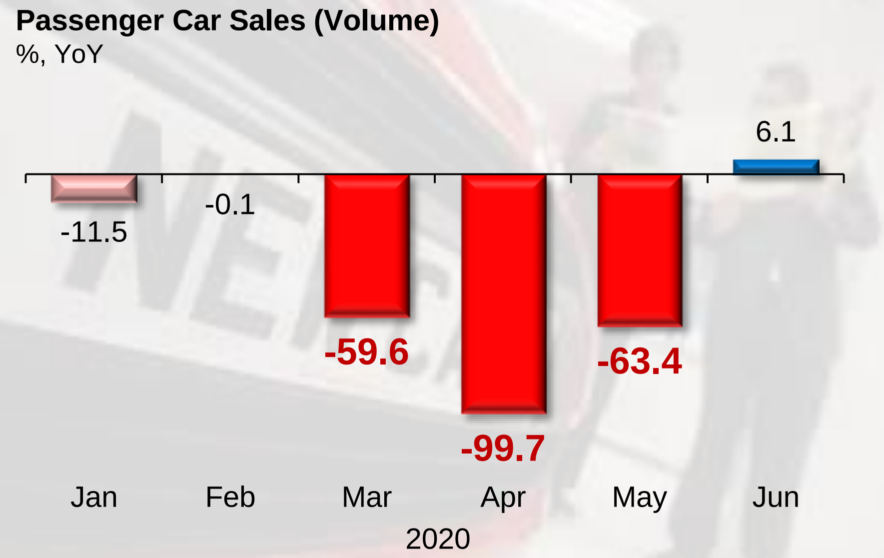
Source: DOSM; PERKESO   @ Unemployment claims under Employment Insurance System (EIS)

Malaysia's post COVID-19 recovery tracker (cont.)

Consumer sentiment



Buying a car



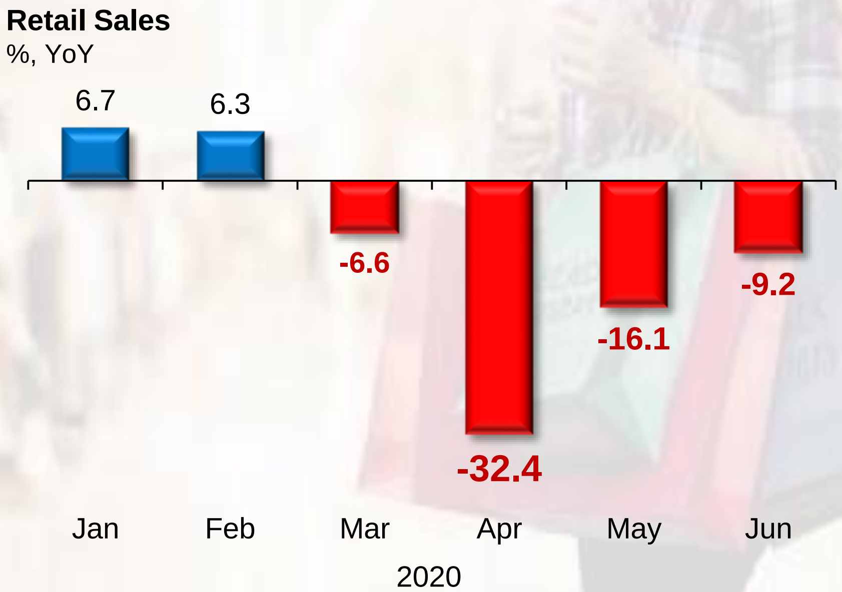
- Consumers' optimism has suffered a record plunge
- Until Malaysians feel safer from the virus and have secured job and income, they won't regain confidence and spend normally ➔ hurdle to a strong recovery

- While sales tax exemption has spurred a one-off demand, car buyers won't return in droves and make the biggest purchase unless they have secured job and income as well as can get a loan
- **PENJANA**: Exempts sales tax on passenger cars (100% for locally assembled (CKD) and 50% for imported (CBU)) till end-2020

Source: MIER; BNM

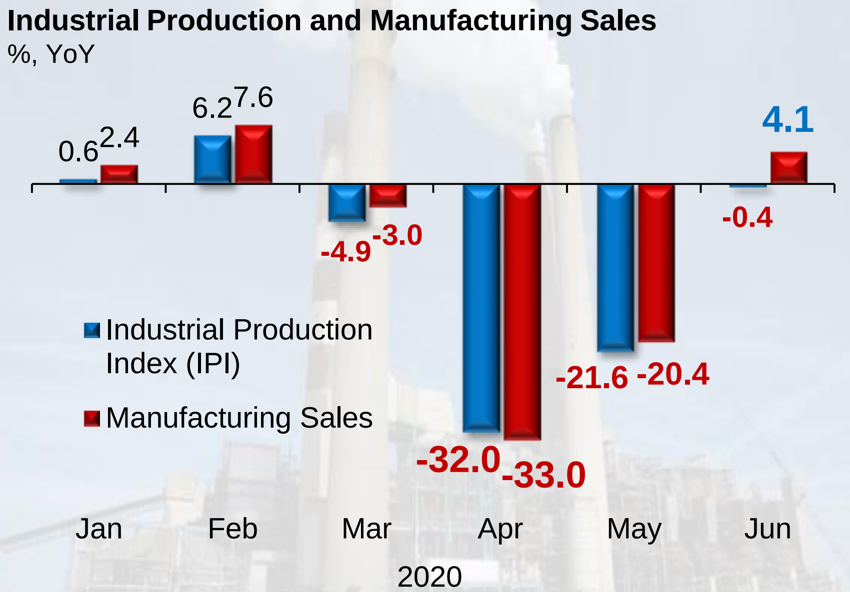
Malaysia's post COVID-19 recovery tracker (cont.)

Shopping at retailers



- **Footfall in major shopping malls about 70%-90%**, but **sales have not picked up significantly** vs. pre-MCO
- Amid wary about the virus, social distancing and SOP are likely to discourage many people away when stores reopen
- **How fast they return is critical for domestic consumption and spending**

Production & manufacturing sales

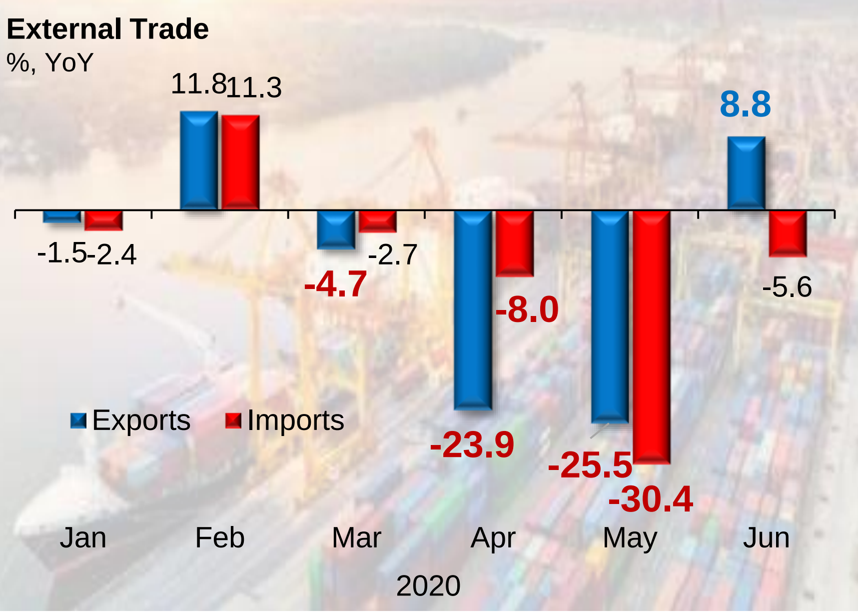


- **Manufacturing capacity has gradually restored back to 70%-80%** and 90%-100% for some strong-demand products industries (still low around 30%-50% for wearing apparels)
- **Sharp plunges in industrial production and manufacturing sales** hit the bottom in 2Q and are expected to gradually recoup lost ground

Source: DOSM

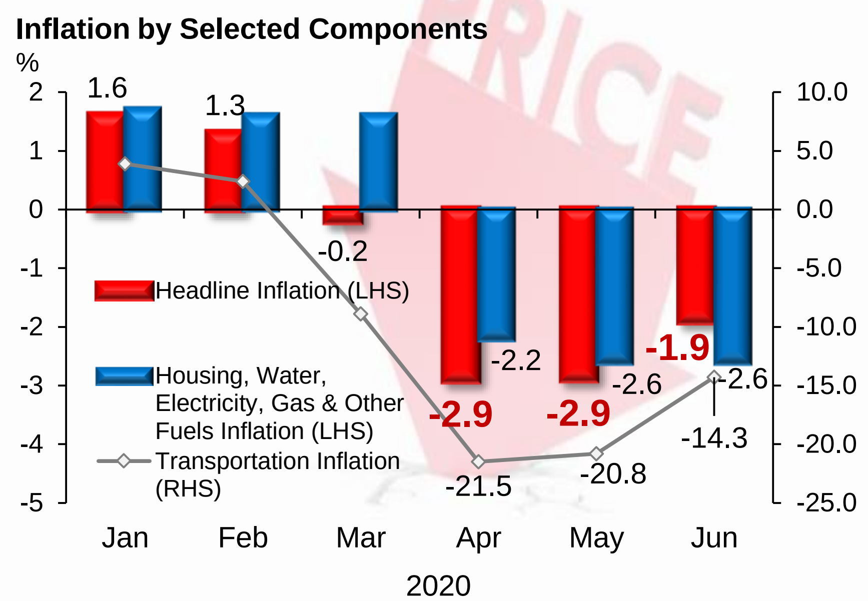
Malaysia's post COVID-19 recovery tracker (cont.)

External trade



- **Exports** rebounded by 8.8% yoy in June on stronger demand of E&E and rubber products as well as higher CPO prices.
- Our major trading partners' pace of economic recovery in 2H 2020 would help to lift export growth and support the economy

Consumer Price Index (CPI)

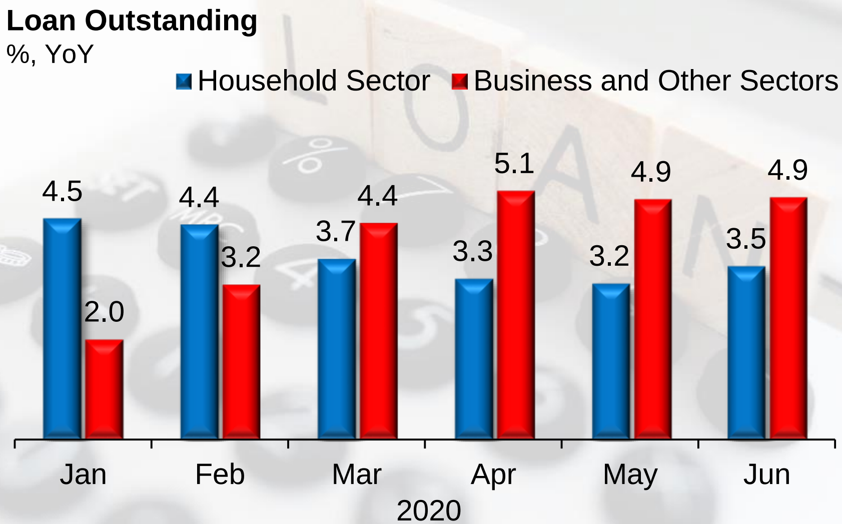


- **Deflation** inflicted by lower petrol prices and electricity tariff discounts amid slow price increases in other main groups. Capacity slack and oversupply amid slower demand
- **30.8% of goods in the CPI basket** (by sub-groups) **saw decreases in prices** in Jan-Jun 2020 (32.7% in June; 28.8% in May).

Source: DOSM

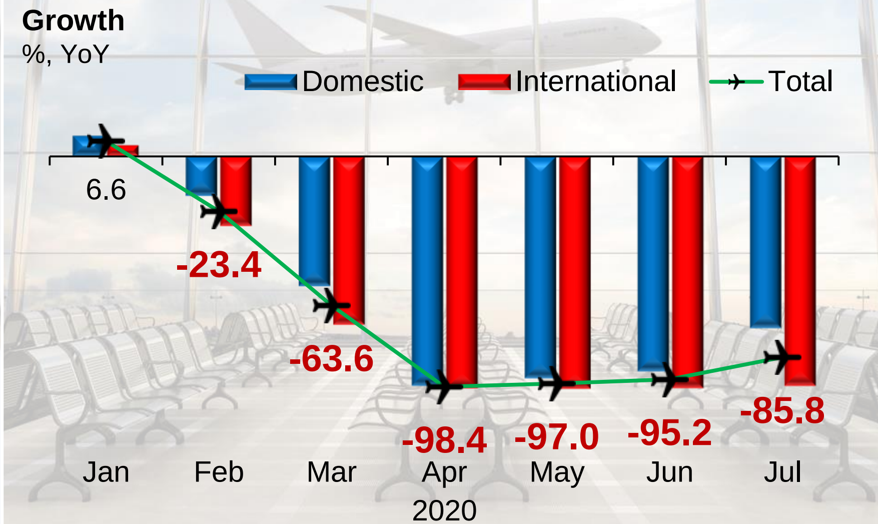
Malaysia's post COVID-19 recovery tracker (cont.)

Loan financing



- Business loan growth (4.2% yoy in June, 4.5% in May and 4.7% in April) continued to ease; households' demand picking up
- As of 20 July, total **loan moratorium amounted to RM59.0 billion** (RM38.3 billion for 7.7m individuals and RM20.7 billion for 240k businesses)
- Real test is **the expiry of loan moratorium in September**

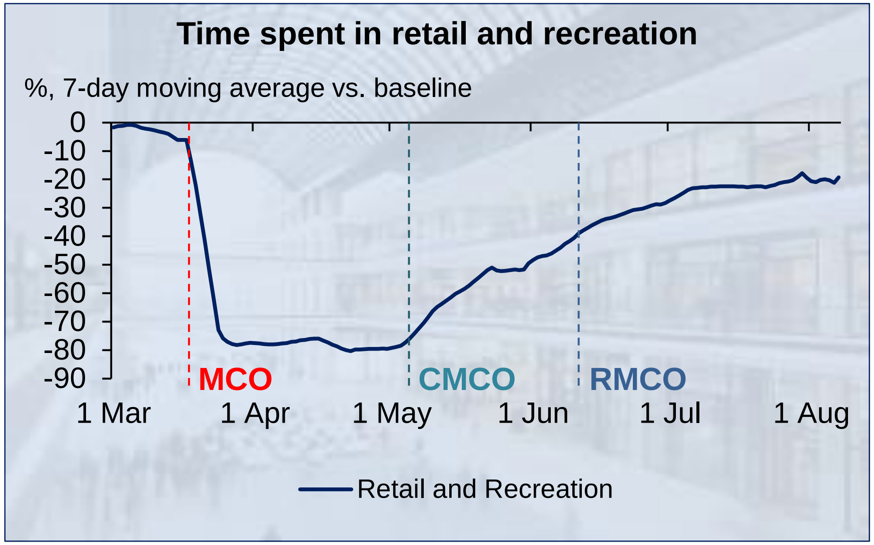
Daily flying passengers

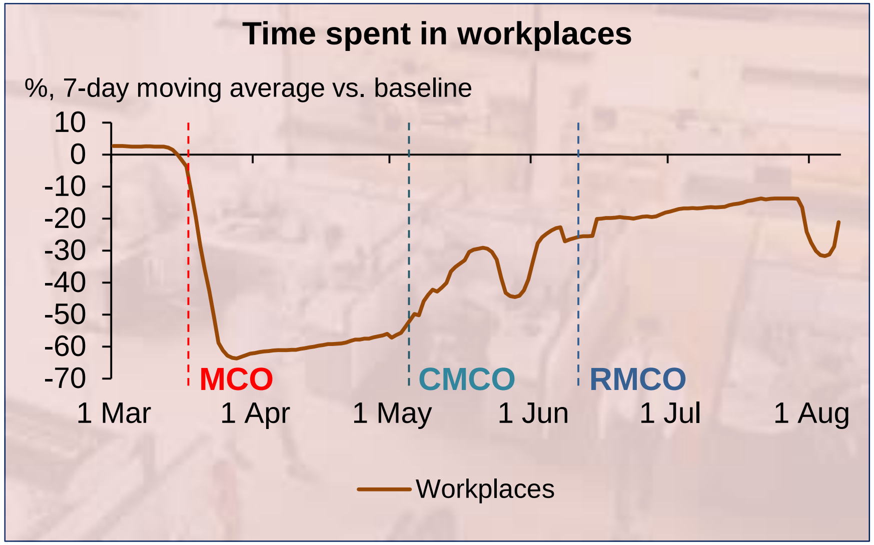


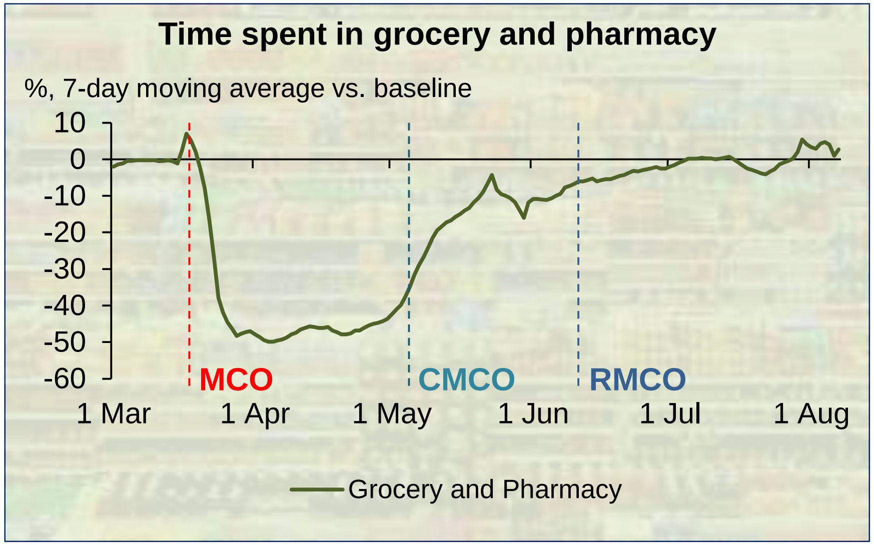
- Following the inter-state travel and on-going negotiations to allow cross-border travel using the "Green Bubble" countries method, the aviation and travel industry will be gradually on the mend
- **Airline passenger traffic numbers tripled in July** from June. This was due largely due to an increase in domestic travel, with aircraft movements doubling to 22,649 and passenger traffic to almost 1.3 million

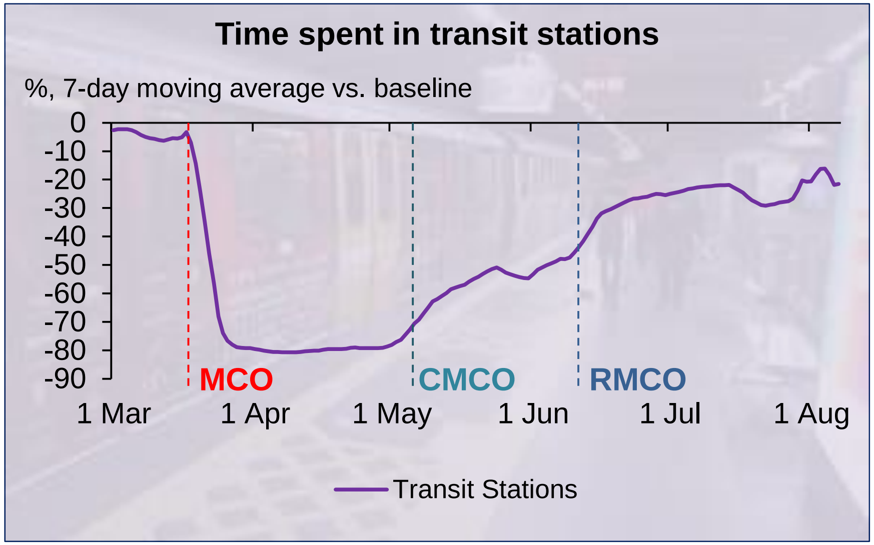
Source: BNM; MAHB

Reopening economy: Malaysia's mobility tracker









Source: Google Mobility (baseline = median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)

The Malaysian Economy

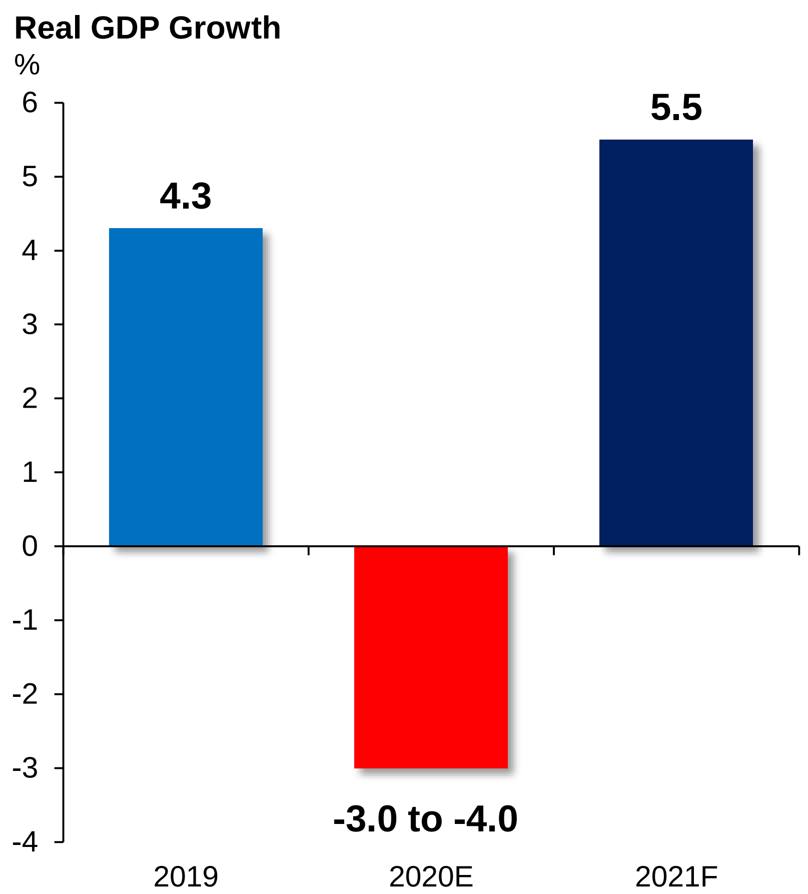
Prospects in 2020-2021 – What might the recovery look like?

Malaysia's economic growth scenarios for 2020-2021*

Scenario		Projected GDP growth in 2020	Projected GDP growth in 2021
Upside 	• Global growth stabilisation and recovery • COVID-19 outbreak is contained in 1H 2020. Hopeful for a vaccine in 2021 • Monetary and fiscal stimulus help to cushion the dampening impact	**-1.5%**	**6.5%**
Base Case 	• A prolonged COVID-19 outbreak disrupted supply chains and dampened domestic demand • Financial turbulence • Fiscal and monetary stimulus help to ease the magnitude of impact	**-3.0%**	**5.5%**
Downside 	• Deeper global recession • Deepening impact from a prolonged COVID-19 outbreak • Sharp correction in equities and commodities market • Ineffective monetary and fiscal stimulus	**-7.0%**	**2.0%**

* SERC's estimates

Get back on track: Well positioned to recover but risks remain



Positive Outlook

- "Sudden stop" in activity in 2020 will normalise in 2021 amid some permanent loss in output
- Technical base comparison sees a "sharp" bounce in annual growth comparison in 2021
- Services and tourism-related sectors will be revitalised as tourist arrivals resume gradually
- Construction: Supported by on-going public infrastructure projects and new projects
- Exports will rebound as global trade picks up

Risks to outlook

- A prolonged drag in global recovery
- Longer time for some domestic sectors to repair damage
- Households rebuild savings
- Slow recovery in jobs market

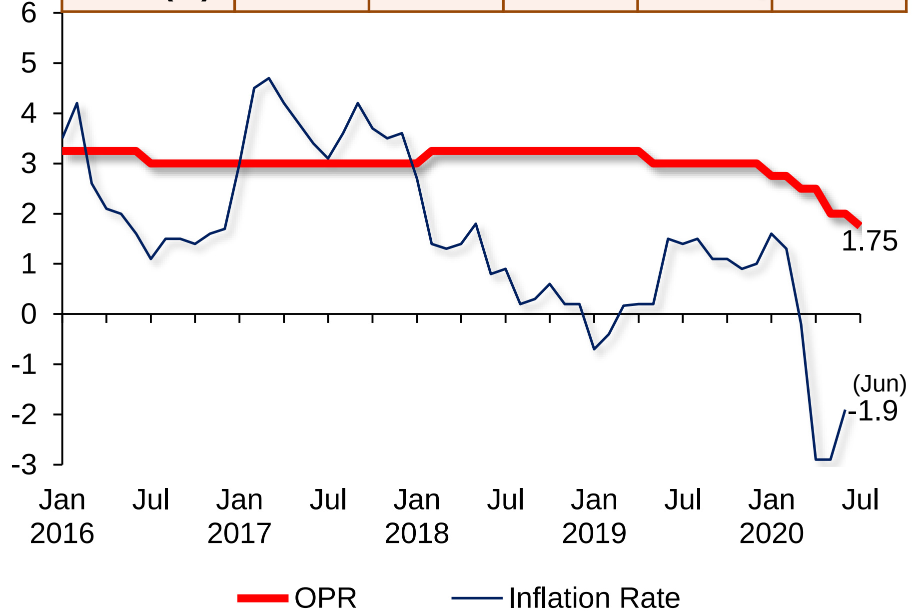
Source: DOSM; SERC

Accommodative interest rates to accelerate recovery

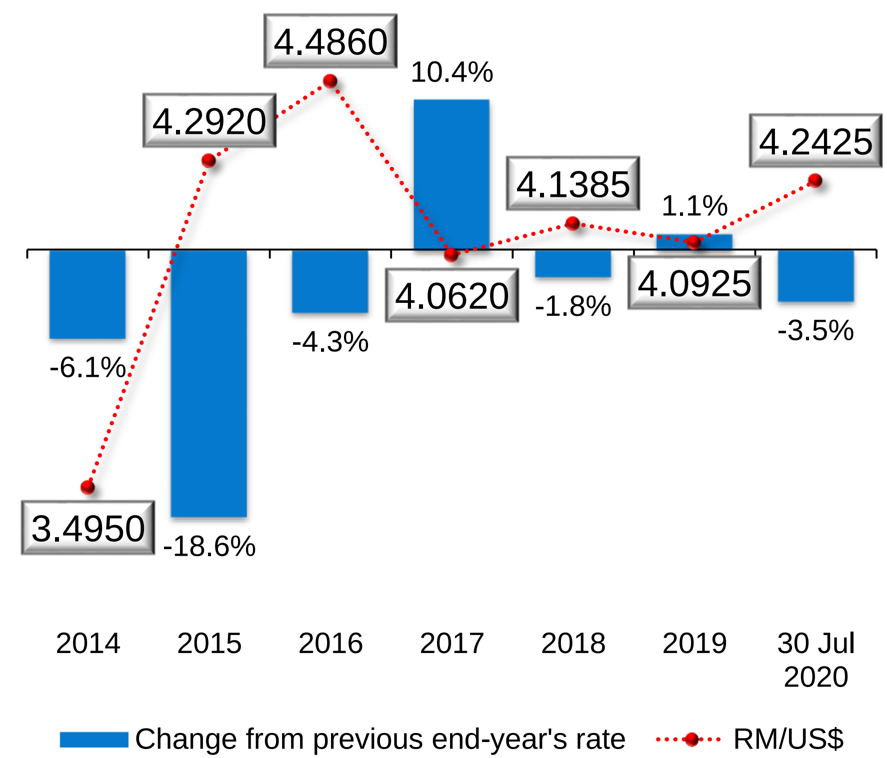
- As long as there is no a broad-based decline in prices for a sustained period, says at least more than a year, it is a lesser concern about deflation.

Lower oil prices-induced deflation in 2020

Year	2016	2017	2018	2019	2020E^
OPR (%)*	3.00	3.00	3.25	3.00	1.75
Inflation Rate (%)	2.1	3.7	1.0	0.7	-0.5 to -1.0



Ringgit outlook: RM4.20-4.30 per US dollar at end-2020



* OPR as at end-period ^ denotes SERC's estimates

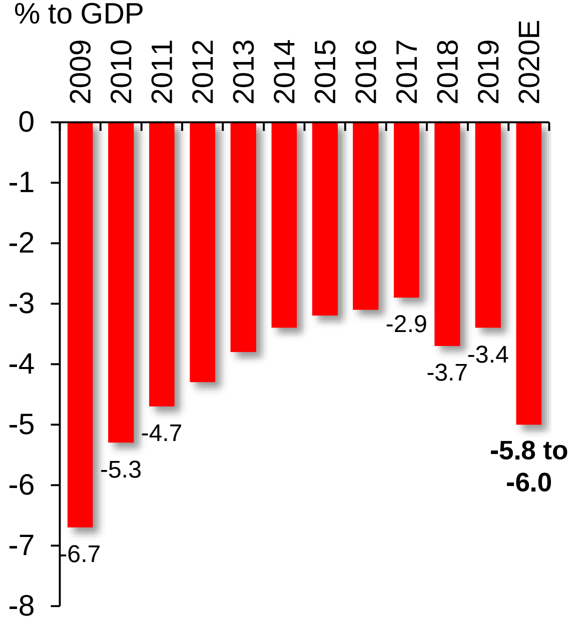
Note: Exchange rate (12:00 rate) as at end-period

Source: DOSM; BNM

Fiscal deficit may not matter much in an economic recession

Fiscal deficit is expected to widen to 5.8% to 6.0% of GDP in 2020

Fiscal Deficit
% to GDP



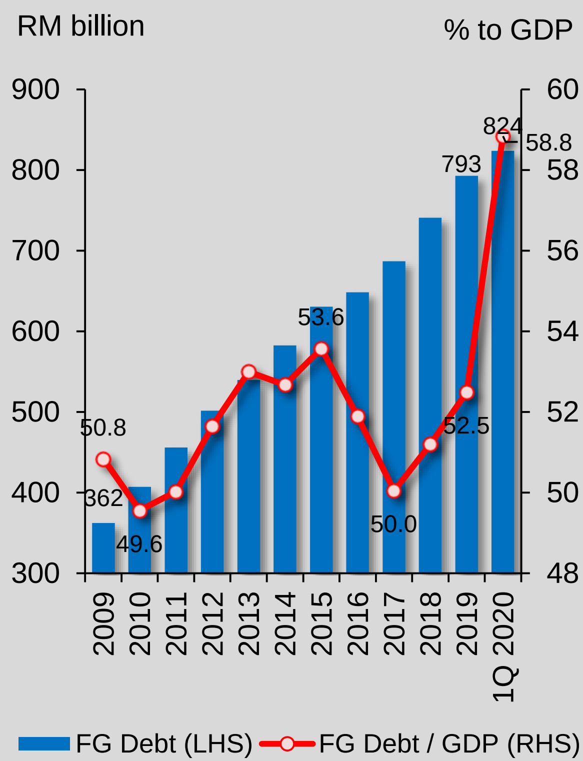
Sovereign ratings

- S&P: **A-** (**Negative**)
- Moody's: **A3** (**Stable**)
- Fitch: **A-** (**Negative**)

Source: BNM; MOF; S&P; Moody's; Fitch

The COVID-19 Bill proposed to increase statutory debt limit to 60% of GDP and will return to 55% on 1 Jan 2023

Federal Government Debt



- **Revenue enhancement**
  - Additional non tax revenue, including higher dividend contributions from the GLCs and GLICs such as PETRONAS, Khazanah Nasional Berhad, Bank Negara Malaysia, etc.
  - Reintroduction of Goods and Services Tax (GST)?
  - Privatisation of some government-owned assets
- **Expenditure rationalisation**
  - More targeted subsidy; savings from fuel subsidy
  - Reprioritisation and reallocation of expenditure
  - Shortfall in government spending due to MCO

No compromise on fiscal discipline and governance

- Federal Government debt stood at RM823.8 billion (estimated 58.8% of GDP) as at end-Mar 2020, has exceeded self-imposed administrative limit of 55% of GDP.
- It is required to seek Parliament's approval to relax these binding fiscal limits.

Fiscal indicators

Source: MOF

Fiscal rules	Legislative / Statutory Guidelines	Administrative
Borrowings are only to finance development expenditure	**Loan (Local) Act 1959**	Current balance always in surplus to ensure operating expenditure is financed by revenue
Domestic debt ceiling (MGS, MGII, MITB)	Not exceeding 55% of GDP **Loan (Local) Act 1959** and **Government Funding Act 1983**	Self-imposed limit of 55% of GDP
Offshore borrowing ceiling	Not exceeding RM35 billion **External Loans Act 1963**	
Issuances of conventional Treasury bills	Not exceeding RM10 billion **Treasury Bills (Local) Act 1946**	
Limit of debt service charges (DSC)	Allocation for debt service charges are charged items and not required to be tabled to Parliament **Federal Constitution Article 98 (1)(b)**	DSC ≤ 15% of revenue or operating expenditure

Resume fiscal consolidation when the economy recovers

- ✓ **Committed to lower fiscal deficit to 4% of GDP in 3-4 years**
- ✓ **Find the right path** between **budget deficit** (or fiscal stimulus) and **sustainable debt level** during the good times and stable years
- ✓ **Macro-economic and political stability**

- **Debt-to-GDP ratio should not be a cause for alarm for now**
  - 60.1%-93.1% in 1982-1991
  - 60% is considered as a prudential limit
  - Balance between higher debt binding limit and erosion of fiscal credibility

However, the growing mountain of debt should be viewed seriously

Debt service charges (DSC) have been growing rapidly by 8.6% pa from RM15.6 billion in 2010 to RM32.9 billion in 2019, made up 12.5% of total revenue / operating expenditure.

Rebooting Malaysia

Political stability is key to macroeconomic stability and growth

Good sense and strong political will must prevail to reset our national development agenda

10-pin policy priorities in the immediate- and short-term

- **Broader stimulus. RM295.0 billion or 21.1% of GDP fiscal, monetary and micro-financial measures** to blunt the amplification of economic damages on households and businesses (targeted) in the immediate-and short-term.

- In the immediate-term, there is **pressure to reduce unemployment, revive consumer spending and stimulate economic growth**. Address **investors' lingering concerns about domestic political environment and future policy direction**. The immediate priorities are to:

1. **RESTORE CONFIDENCE ON ECONOMY AND POLITICAL STABILITY**
2. **SWIFTLY IMPLEMENT TARGETED FISCAL SPENDING**
3. **EASE COST OF DOING BUSINESS**
4. **HOLISTIC MANAGEMENT OF FOREIGN WORKERS**
5. **SUSTAIN PRIVATE CONSUMPTION; EASE UNEMPLOYMENT**
6. **REVITALISE PRIVATE INVESTMENT (DDI and FDI)**
7. **DIGITALISATION AND AUTOMATION**
8. **RESKILLING AND UPSKILLING WORKFORCE**
9. **UPLIFT EXPORTS CAPACITY**
10. **REJUVENATE CONSTRUCTION AND SLUGGISH PROPERTY SECTOR**

Rebooting Malaysia: Recovery, Revitalise and Reform

Malaysia's Economic Recovery Plan (ERP) in the medium- and long-term will constitute **FIVE** key pillars as follows:

- **FISCAL STABILITY AND GROWTH STABILISATION PACT**
- **UNLOCKING NEW SOURCES OF GROWTH**
- **REINFORCE COMPETITIVENESS AND PRODUCTIVITY NEXUS**
- **SMART AND DIGITAL TECHNOLOGY-DRIVEN INVESTMENT**
- **UPSKILLING WORKFORCE AND EDUCATION FOR THE FUTURE**

The Government must continue to implement:

Credible economic policies

Institutional and political reforms

- *Including fiscal discipline, political stability and institutional quality*

Malaysia's **institutional quality** must be strengthened further with

A wider implementation of open and competitive tender

Fiscal transparency

Strengthen goverance

To promote accountability and fiscal responsibility

Rebooting Malaysia: Recovery, Revitalise and Reform (cont.)

- **Restore consumer and investor confidence** on the economy and political stability.
- **Macroeconomic and political stability** are essential to ensure a sustained economic revival.

- **Avoid policy flip-flops** as it hurts businesses and worrying investors.

Equal emphasis

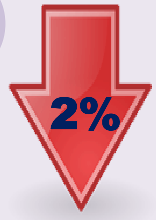
RM207.9bn approved in 2019 : **FDI (40%) = DDI (60%)**

Ease cost of doing business → **Enhance business friendly and competitive** place of doing business and investing

DDI = Domestic Direct Investment

- **Policy continuity and meaningful reforms** should take priority to shore up confidence and economic sustainability.

1



Corporate Tax Rate

from current's

Ordinary	SME
24%	**17%***

* For first RM500,000 chargeable income

2 **Review and upgrade:**

UPGRADE

- **Domestic Investment Strategic Fund (DISF)**
- **Industry4WRD Intervention Fund**
- **Reinvestment Allowance**
- **Accelerated Capital Allowance**
- **Investment Tax Allowance**
- **Automation Capital Allowance**

Rebooting Malaysia: Recovery, Revitalise and Reform (cont.)

Investing in "new smart infrastructure" used for high-tech, digitalisation and sustainable purposes (renewable energy, climate change, eco-green)

For example:

- **Big data centres**
- **5G infrastructure**
- **Charging stations for new energy vehicles (NEVs)**
- **Defense technology**
- **Solar energy**
- **Healthcare**
- **Medical devices**
- **Aerospace**

Digitalisation and e-Commerce

- **RM21.0 billion National Fiberisation and Connectivity Plan (NFCP) (2019-2023)**
- **Industry4WRD Plan (2018-2025)**
- **Malaysia's Digitalisation Plan**
- **Malaysia's National e-commerce Strategic Roadmap**

Smart agriculture – Food – Halal industry

Rubber products, palm oil and oil palm products and wood-based products

Thank You

www.sidc.com.my