社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

SERC

Quarterly Economy Tracker (Jul-Sep 2021)

Malaysia: Recovery, Resilience and Reform

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7 October 2021

Outline

Global Economy - A Careful Balancing Act

Malaysia - Building Back Better

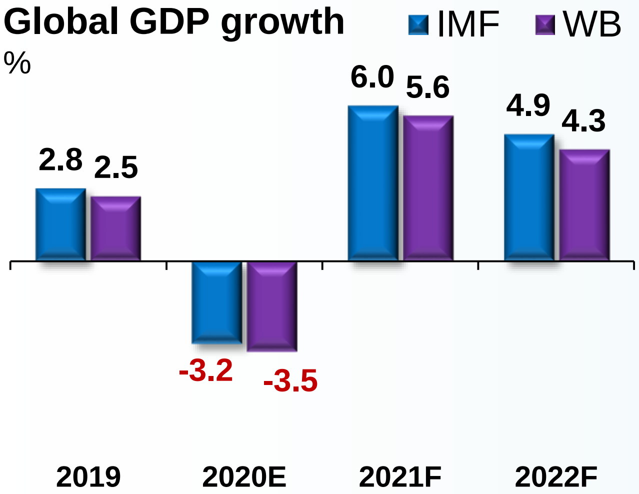
2022 Budget - Revive and Recharge the Economy

Global Economic Recovery – A Careful Balancing Act

- Still uneven global recovery
- Global indicators point to mixed and easing activities ahead
- Beginning of the end of easy money
- Risks to the outlook are broadly balanced

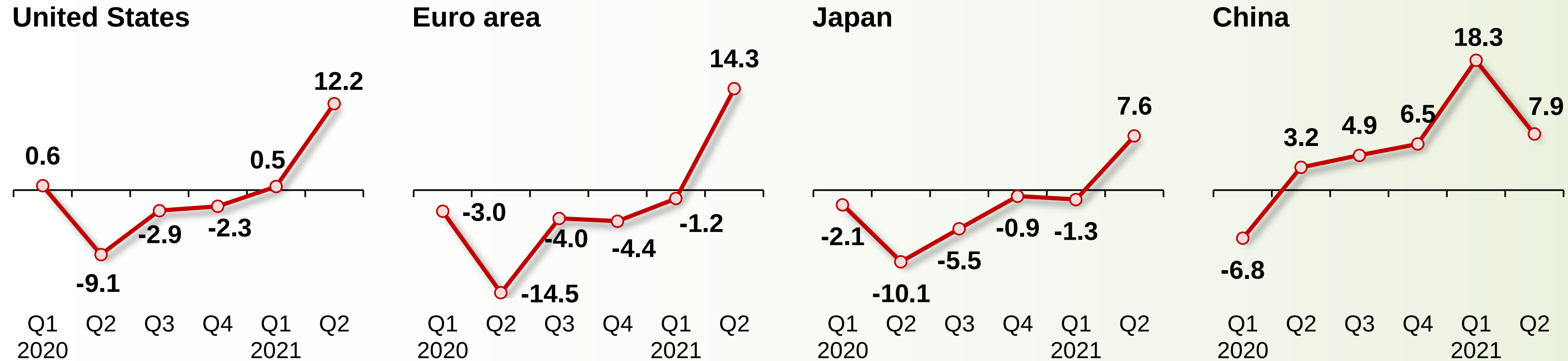
Still uneven global recovery - A Careful Balancing Act

Global GDP growth
%



- Higher vaccinations but at differing pace between countries
- Virus mutations raise the risk of renewed lockdowns and temper the uneven recovery
- Uncertainty in global monetary path. The Fed's tapering of assets purchase; and an eventual interest rate normalisation-induced tighter financial conditions and capital flows volatility

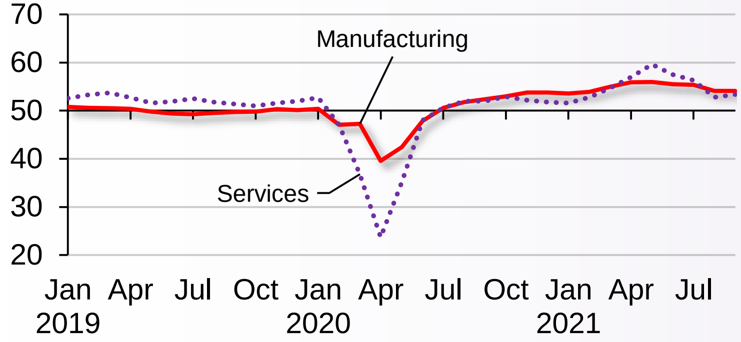
GDP growth of major economies
%, YoY



Source: Officials (unadjusted data except euro area); International Monetary Fund (IMF); World Bank (WB)

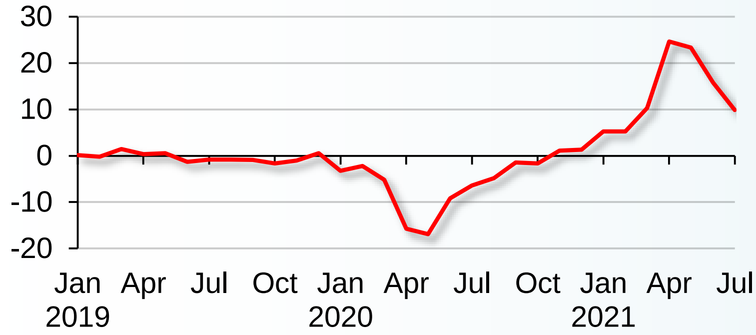
High frequency data indicate mixed, albeit easing momentum

Global manufacturing and services PMI (50=threshold)



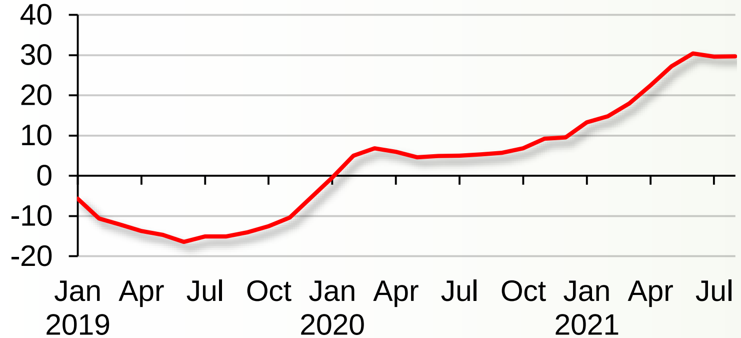
- Recovery continues though not as strong as in 2Q
- Supply disruptions are curbing the rate of output expansion amid continued consumer demand
- Uneven pandemic's impact on different sectors

Global trade growth (%, YoY)



- Global merchandise trade expansion is continuing to grow, albeit easing
- Supply bottlenecks and favourable low base effect is fading

Global semiconductor sales growth (%, YoY)



- Global tech upcycle faced speed bump from global chips shortage, particularly in auto segment
- The World Semiconductor Trade Statistics (WSTS) revised its estimate of global semiconductor sales growth higher to 25.1% in 2021 and 10.1% in 2022

Source: Markit; CPB Netherlands; SIA

Malaysia: A Cautious Recovery in 2H 2021

- Deeper economic scarring effects in 3Q
- Maintain health vigilance as we move into the endemic phase (expected in Oct) coexisting with the virus
- A slew of key economic data in Jul-Aug 2021 has generally shown either a sharp pull back in growth or reverted to a contraction

High vaccinations have curbed the number of caseloads

More than 60% of Malaysia's population (or 86.3% of adults) are fully vaccinated

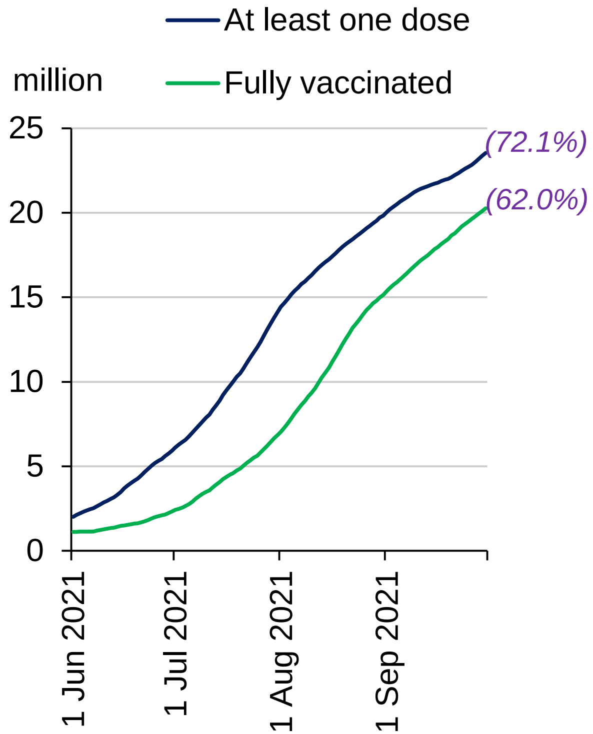
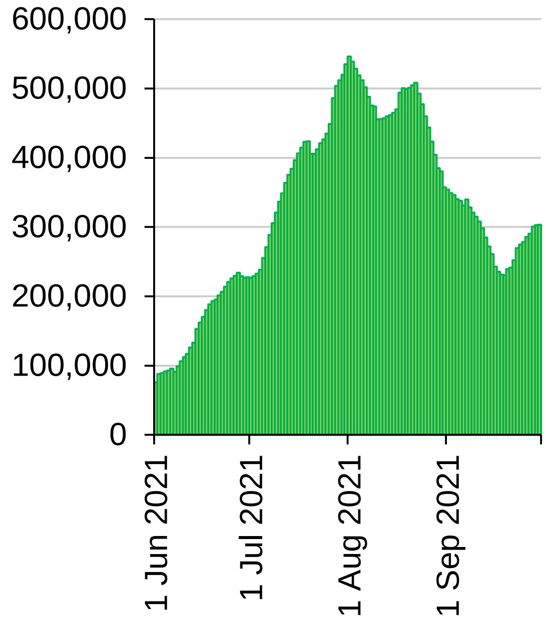


Figure in parenthesis indicates % of population
Data as at 30 September 2021

The number of vaccination per day re-accelerated as vaccination for teenagers began

Vaccination per day

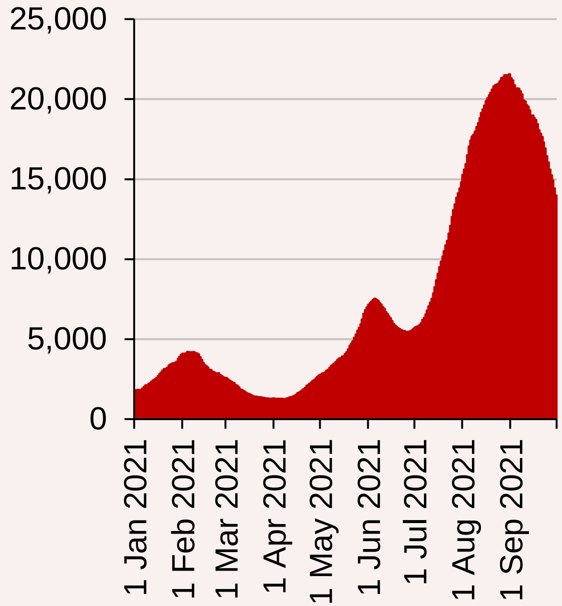
(7-day moving average)



New COVID-19 cases slowing

New COVID-19 cases per day

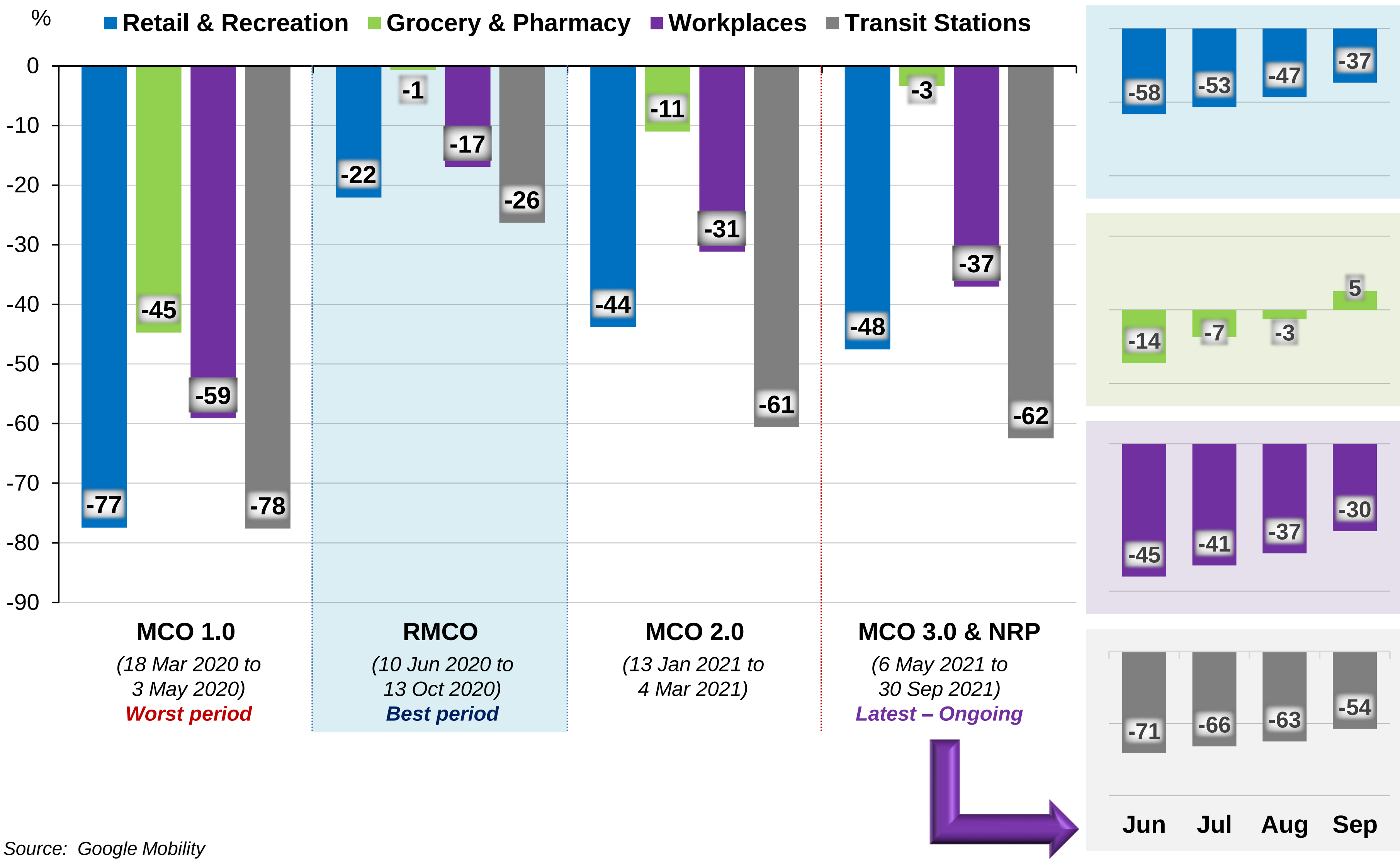
(14-day moving average)



Source: MOH

Malaysia's mobility tracker

Average % change vs. baseline (median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)



Source: Google Mobility

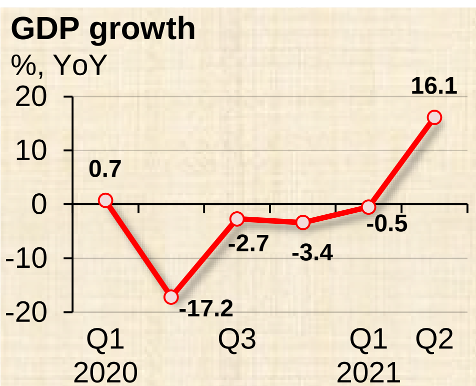
Subdued 3Q (Jul-Sep) 2021 before recovering in 4Q

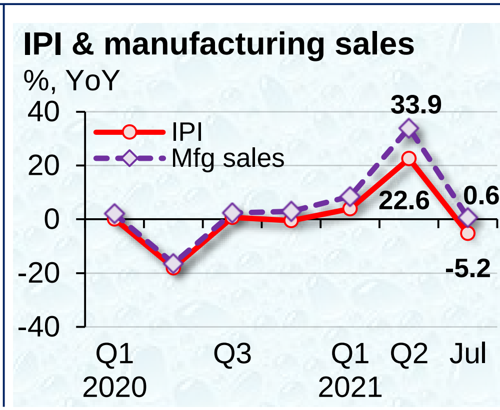
1H 2021 – AIDED BY LOW BASE EFFECTS

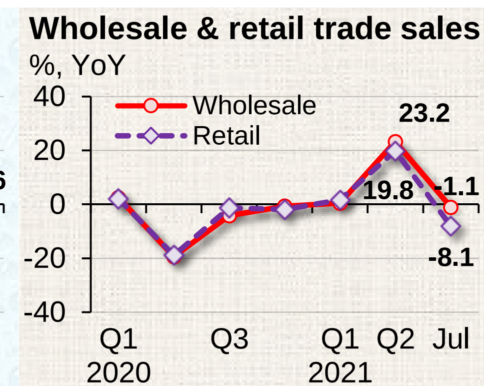
- Strong 2Q GDP hit a temporary speedbump due to the lockdown as new virus variants cases spike exponentially
- Restricted containment measures and people mobility
- Silver lining – surging exports and manufacturing sector, albeit dampened by limited manpower capacity
- Deferred pent-up demand

2H 2021 – MORE REOPENING IN 4Q (Oct-Dec)

- Favourable base effect in 2Q wearing off. 3Q GDP remains challenging relative to 4Q
- Containment measures to be relaxed more rapidly ▸▸ transition to safe economic reopening
- Some release of pent-up demand amid repairing of balance sheet and rebuild precautionary savings
- More economic, including construction and social sectors operating with higher manpower capacity
- Inter-district-state travel; lifting of travel pass as well as reopening of international borders (4Q 2021 – 1Q 2022)



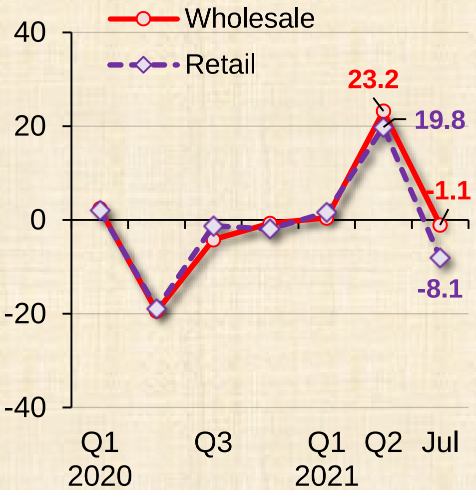




Source: DOSM

Discretionary consumer spending off to a weak start in 3Q

Wholesale & retail trade sales
%, YoY



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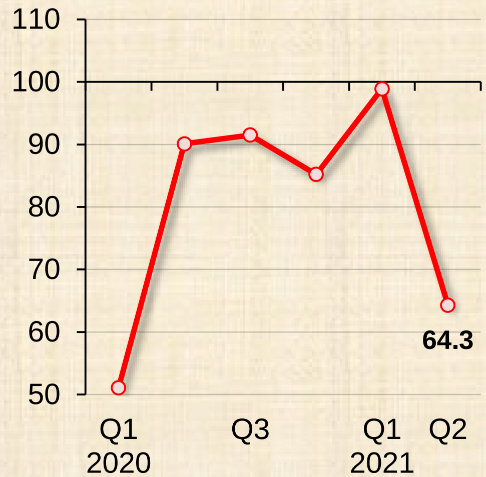
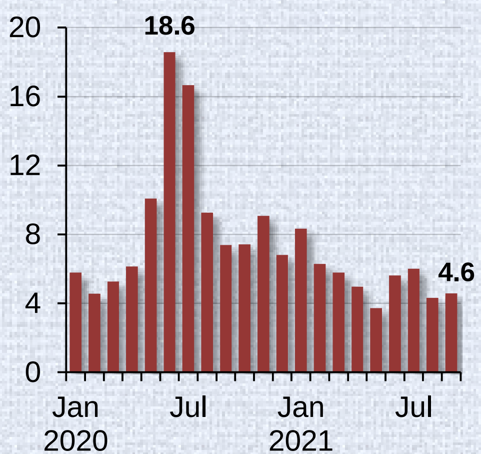
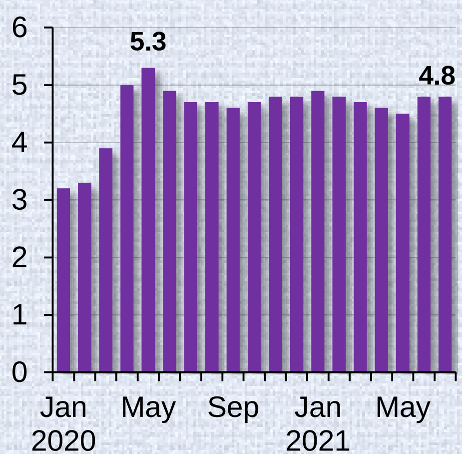
100=threshold



Loss of employment (LOE)
Thousand persons



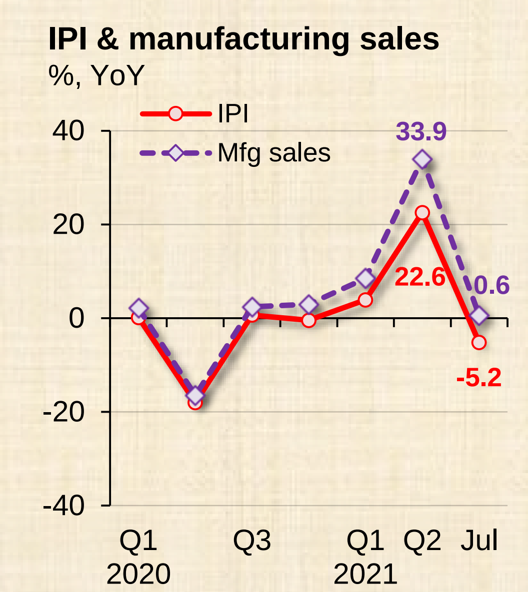
Unemployment rate
%

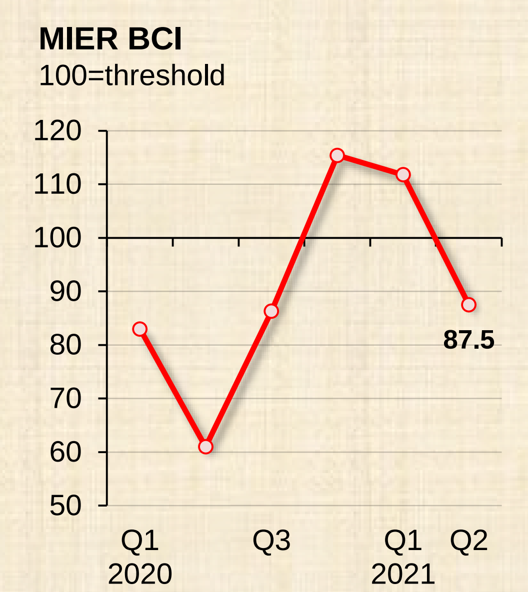


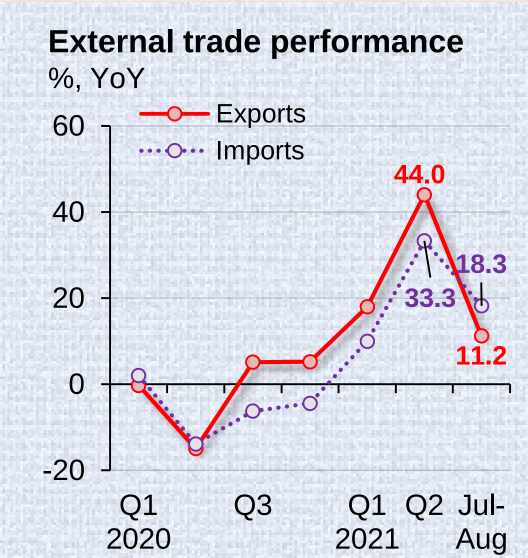
Source: DOSM; MIER; PERKESO (LOE data as at 24 September 2021)

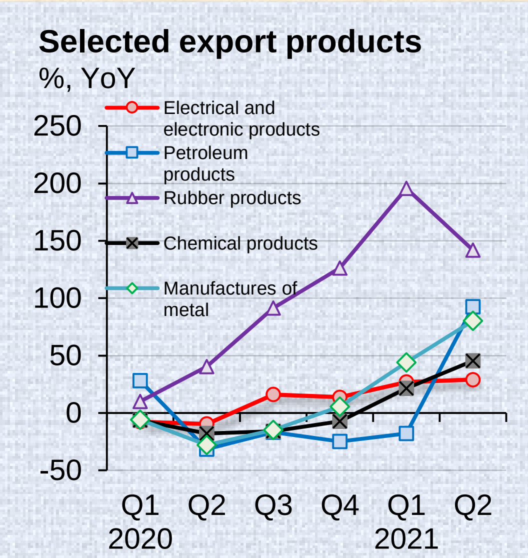
- Wholesale and retail trade reversed to decline in July after a strong rebound on low base effect in 2Q.
- Consumer sentiment dampened as the labour market continues to remain weak due to the surge in new COVID-19 caseloads, leading to re-imposition of containment measures in May 2021.
- Cash handouts, the EPF's withdrawal schemes and loan moratorium continued to provide a temporary relief.
- Loosening containment measures followed by more states moving to reopening phases are expected to lift up consumer activities.
- **Unemployment rate will gradually improve to an estimated 4.7% at end-Dec 2021**, translating a near 755,000 unemployed persons, about 45% higher than nearly 520,000 unemployed persons pre-COVID-19.

Business activities on the mend as more economic sectors reopen





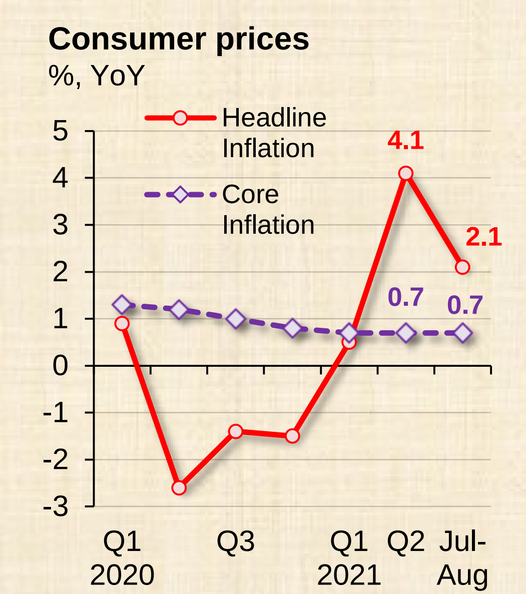


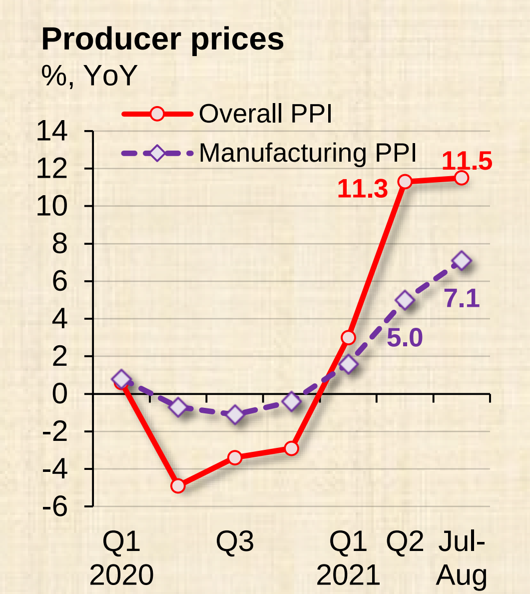


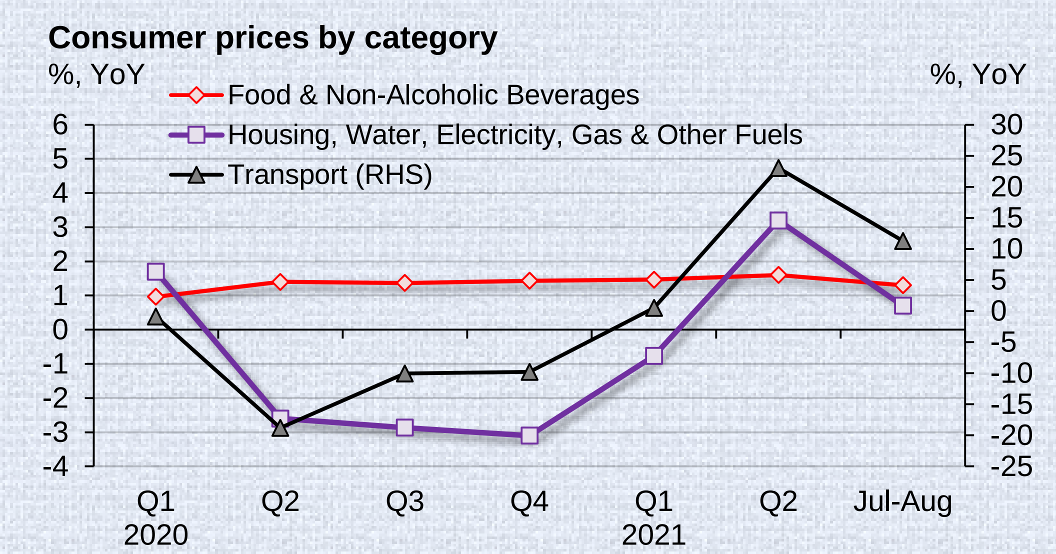
Source: DOSM; MIER

- In July, industrial production was weighed down by weakness in the manufacturing sector whilst the mining sector recorded a marginal growth.
- Given a gradual relaxation of the containment measures and improvement in broad economic activity, industrial production will likely rebound in 4Q 2021.
- Exports continued to sustain its expansion, albeit at a moderate pace, driven by growing global demand of electrical and electronic (E&E) products, rubber products and commodities especially crude palm oil and liquefied natural gas (LNG).
- We expect exports to increase by a smaller magnitude estimated 8.0% yoy in 2H due to the waning effect of low base compared to 30.2% yoy in 1H 2021, taking **the full-year estimate to 18.2% in 2021** (-1.1% in 2020).

Headline inflation softens but real price pressure remains



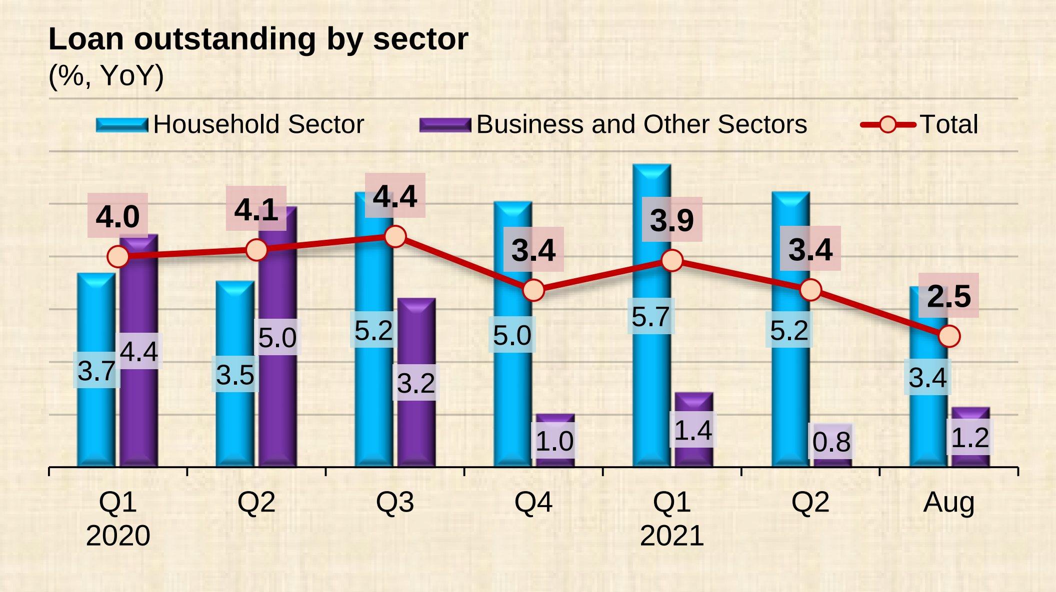


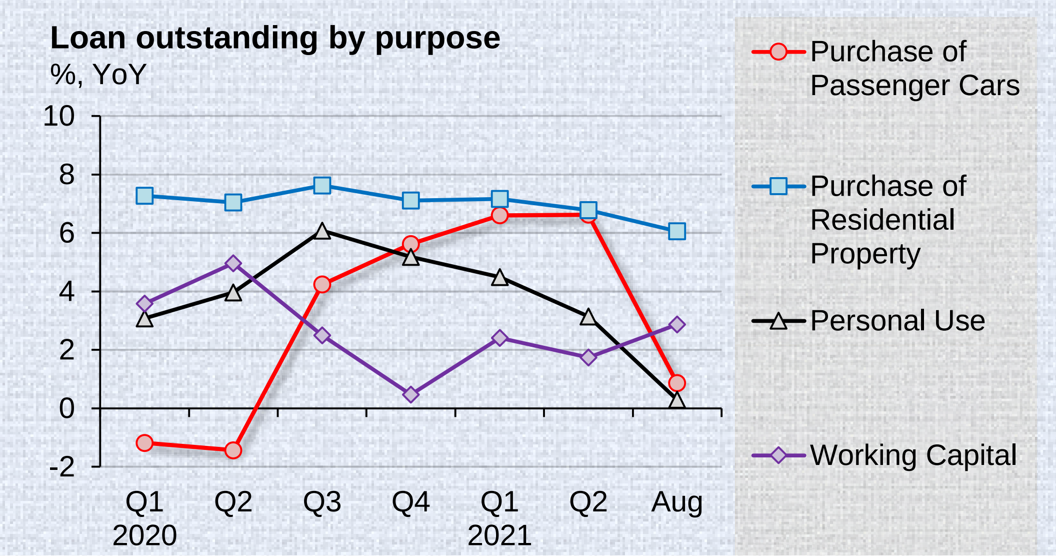


Source: DOSM

- Headline inflation cooled off in July (2.2% yoy) and August (2.0%) from 4.1% in 2Q 2021, largely due to ebbing effect of the low-base arising from fuel prices.
- A broad-based price moderation, led by food, transport, housing, utilities & other fuels (i.e. housing rental), and miscellaneous goods & services (especially personal effects).
- Higher increases in Producer Price Index, including rising cost of raw materials may presage more increased cost of production pass-through onto consumer price inflation.
- Core inflation remained broadly stable.
- **Headline inflation is estimated to increase by an average of 2.5% in 2021** (-1.2% in 2020).

Loan growth moderated for two consecutive months





Source: BNM

- Loan growth continued to moderate, mainly dragged down by slowing household loans demand while business loans demand remain subdued.
- Mortgage loan for residential property is gradually slowing while that of passenger cars pulled back sharply in August 2021.
- Outstanding loan growth for business working capital remained lacklustre though picked up a little, resulted in nearly muted business loan growth.
- By sector, there were declines in loan demand in construction, real estate as well as transport, storage and communications.

2022 Budget: Recovery, Resilience and Reform

- Policymakers must figure out how to fix a shattered economy, rebuild from the damage of the pandemic to become more resilient and to safeguard it against the next catastrophe
- Immediate priority is to craft a swift economic recovery plan for generating growth, enhancing economic resilience, revitalizing private investment, creating jobs as well as reskilling and upskilling of manpower

Malaysia's growth prospect for 2022 (GDP: 5.2%)

UPSIDE RISKS

- **Continued global recovery** to support exports, driving the expansion in production activities
- Still **supportive fiscal and monetary policy**
- **Full resumption in economic activity**, with all sectors allowing to operate
- Recovery in **labour market conditions**
- Implementation of the **12MP, MyDigital**
- Implementation of **RCEP**

DOWNSIDE RISKS

- Higher **financial market volatility** due to sooner than expected Fed's tapering of assets purchase and interest rate normalisation
- Continued **price pressures**
- Consumers **rebuild savings**
- Slower than expected recovery in **domestic demand**
- Slower progress in **projects implementation**
- Lingering domestic **political uncertainty**

2022 Budget: Recovery, Resilience and Reform

How large will be total allocation for 2022 Budget?

Budget	Total Allocation	Development Expenditure	Special COVID-19 Fund
2022 (SERC's est.)	**RM310.0 billion**	**RM60.0-65.0 billion**	**RM18.0-20.0 billion**
2021 Initial allocation	RM322.5 billion	RM69.0 billion	RM17.0 billion
2021 Revised allocation	RM314.8 billion	RM68.2 billion	RM27.0 billion

The **Special COVID-19 Fund** is expected to be lower due to **lower allocation** as well as **some non-recurrence of the one-off large financial assistance programs in 2020-2021**.

We estimate an **overall budget deficit between -5.5% and -6.0% of GDP in 2022** (estimated between -6.5% and -7.0% in 2021).

Federal government's debt ceiling will be raised to **65% of GDP** from 60% to allow fiscal space **to meet contingency expenditure to support a firmer recovery**. Fiscal expenditure and actions should be nested within a credible medium-term fiscal stability framework to ensure that fiscal deficit and debt remains sustainable.

2022 Budget: Recovery, Resilience and Reform (cont.)

Pro-Growth Recovery and Transformational Budget - Move from broad-based to targeted approach of fiscal expansionary spending

Budget 2022's priorities must be framed to **continue to keep our country safe from living with the COVID-19 flu-like endemic**; **accelerate the recovery** and **reconstruct from the deep economic scarring**.

1. Rebuild and Sustain Public Confidence and Trust

- Quick and decisive actions to restore confidence through 4 strong pillars: **COMMUNICATION, INTEGRITY, TRANSPARENCY AND ENGAGEMENT**.

2. Facilitate and Secure the Economic and Business Recovery

- Emphasis more on broader fiscal and financial supports for affected households and firms.
- Supporting the reallocation of labour and capital to growing sectors through targeted hiring subsidies, jobs creation and retraining and financing mechanisms.

3. Invest in the Future

- Accelerating digitalisation and technology and automation, boosting productive capacity and productivity as well as competitiveness.
- Accelerating the transition towards green investment and growth as well as embrace best practices of Environmental, Social and Governance (ESG).
- Ensuring the economic gains are equitably shared as outlined in the Shared Prosperity Vision 2030.

15 focus areas for consideration in 2022 Budget

TARGETED FISCAL STIMULUS

FISCAL REVENUE ENHANCEMENT

FISCAL EXPENDITURE RATIONALISATION AND OPTIMISATION

GREEN STIMULUS SPENDING

STIMULATE CONSUMERISM

REVIVING PRIVATE INVESTMENT

EASING BUSINESS PAIN POINTS

TAX TREATMENT

BOLSTERING DIGITAL ECONOMY AND AUTOMATION

BOOSTING EXPORTS

REBUILDING TOURISM FOR THE FUTURE

GOING GREEN AND SUSTAINABLE ECONOMY

CREATING JOBS AND RETRAINING

ADDRESSING THE SHORTAGE OF FOREIGN WORKERS

OTHERS

Highlights of our proposals …

Tax and Non-tax incentives

The 2022 Budget could implement some initiatives and review of tax treatment to **curb elements of revenue leakage or harmful practices as well as to address cross-border tax evasion in digital economy activities**.

Implementation of **Special Voluntary Disclosure Program (SVDP) for indirect taxes**. In 2019, indirect taxes contributed 17.3% (RM45.8 billion) of total revenue. These include import duties (1.0%), excise duties (10.5%) and SST (11.4%).

Introduction of a **Tax Compliance Certificate** as a pre-condition for tenderers to participate in Government procurement.

Implementation of the **Tax Identification Number (Tax Identification Number or TIN)**.

No reintroduction of the Goods and Services Tax (GST), which could be due to the current weakening economic and business conditions amid concerns about the political backlash.

Nevertheless, we think that the Budget can **make a policy statement on the GST,** paving the way for its **eventual implementation in 2023**.

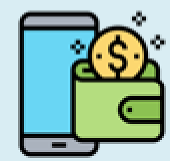
Highlights of our proposals … (cont.)

Continuation of Financial Assistance and Relief for Households and Businesses

- Measures to help boosting households' discretionary consumption amid still weak job growth (jobless rate at 4.8% in July).
- The percentage of Malaysians live below poverty line income (RM2,208 per month) had increased to 8.4% (640,000 poor households) in 2020 from 5.6% (405,000 households in 2019); and 580,000 M40 households (20% of the middle-income group) have been pushed down to B40 category.

Appropriate Social Safety Protection in terms of Income, Jobs and Skill Support

Continuation of targeted cash handouts for B40 households and individuals (10 Sept:RM12.3bn to almost 10 million recipients)



Higher amount of e-wallet payment, which has to be spent within a stipulated period

Higher Special Personal Tx relief (RM3,500)/personal tax relief for the COVID-19 health prevention related expenses

Higher tax relief limit each for contribution to EPF (from RM4,000 to RM7,000) and insurance (from RM3,000 to RM5,000)

Highlights of our proposals … (cont.)

Skilling/Reskilling/Upskilling Development

- For **employees - develop new skills**, **start an apprenticeship**, and **get better paid jobs**
- For **micro and SMEs (MSME)** – provide **training, skills and technology** they need to compete with bigger firms and **become the high growth companies of the future**.

Catalysing Green Investment and Infrastructure Spending as the Core of Economic Recovery

Ongoing investment in infrastructure as well as new investment in roads and rail, schools and hospitals, and housing development.

Green infrastructure, which **increases resilience to environmental challenges with the contribution of green technology** coming from five sectors, i.e., energy, transport, building, waste and water. For example, personal tax relief for the installation of solar photovoltaic (PV) systems; tax incentives for electric vehicles such as road tax, green parking scheme, charging installation and toll rebate.

Introduce a landmark budget helping to ramp up public healthcare facilities. Public healthcare spending at 2% of GDP currently must be increased progressively to at least 4%.

Highlights of our proposals … (cont.)

Provision of Tax Relief and Incentives to Support Businesses Revival and Invest in Digital Technology and Automation

Besides the continued provision of concessionary interest rate facilities and soft loan funds as well as grant to support micro and SMEs' business restructuring and expansion, businesses would welcome the following relief support in the Budget 2022 to ease pressure on operating costs.

Relief Support to Ease Pressure on Operating Costs

EIS
EMPLOYMENT INSURANCE SYSTEM

No increase in minimum wage and statutory payment (such as EIS)

25-50% discounts to all companies with foreign worker permits

HRD CORP
HUMAN RESOURCE DEVELOPMENT CORPORATION

Waive levy contribution for the HRD Corp until 31 December 2022

Extend the wage subsidy program until June 2022 for affected industries

The extension of special tax deduction to premise owners offering rental discount

Highlights of our proposals … (cont.)

Relief Support to Ease Pressure on Operating Costs (cont.)

- **Continued targeted repayment assistance (**Between 1 June and 10 September 2021, more than 2.6 million individual borrowers and 86,000 SMEs)
- **Waive tax instalments for Companies (Form CP204) and Individuals (Form CP500) fall due in year 2021-2023**
- **Payment of balance of tax for YA 2021-2023 in 3 monthly instalments for companies (Form C) and individuals (Form B)**
- **Abolish seven years condition.** Allow the company to carry forward the unabsorbed business losses and unutilised reinvestment allowance indefinitely.

Support Property Sector and Automobiles

Extend Home Ownership Campaign (HOC) to 31 December 2022 (from 31 December 2021). 1H 2021: Residential property transaction volume in primary market +31.4% to 19,432 units; and property transaction value +46.7% to RM8.2 billion

Extend Real Property Gains Tax (RPGT) exemption for another year. 1H 2021: Overall property transaction volume +21.0% to 139,754 units; and property transaction value +32.1% to RM62.0 billion

Extend sales tax exemption on assembled and imported passenger vehicles to 31 December 2022 (from 31 December 2021)

Highlights of our proposals … (cont.)

Support Tourism Sector, Revive Private Investment & Expand Exports

Support, Recovery and Re-set Plan will provide support for the tourism sector nationwide, to enable the reset of tourism to be more sustainable and resilient.

Micro and SMEs, start-up, and e-hailing will be supported by **business digital training, advisory and facilitation programs**.

Special Reinvestment Allowance (RA), Accelerated Capital Allowance; Special Zero Tax Rate and Investment Tax Allowance (ITA) to assist in the relocation of facilities to Malaysia. Increase allocation for **Smart Automation Grant** (SAG) to support business and industry transformation towards the Industry 4.0.

Expedite the ratification of Regional Comprehensive Economic Partnership (RCEP) and other Free Trade Agreements (FTAs), such as the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP) in order to provide market access for Malaysian exporters.

Grants and incentives for export market promotion. Brand Promotion Grant, which was launched in 2003 and subsequently suspended can be reinstated.


Q&A

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THANK YOU

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