Economic Outlook 2021

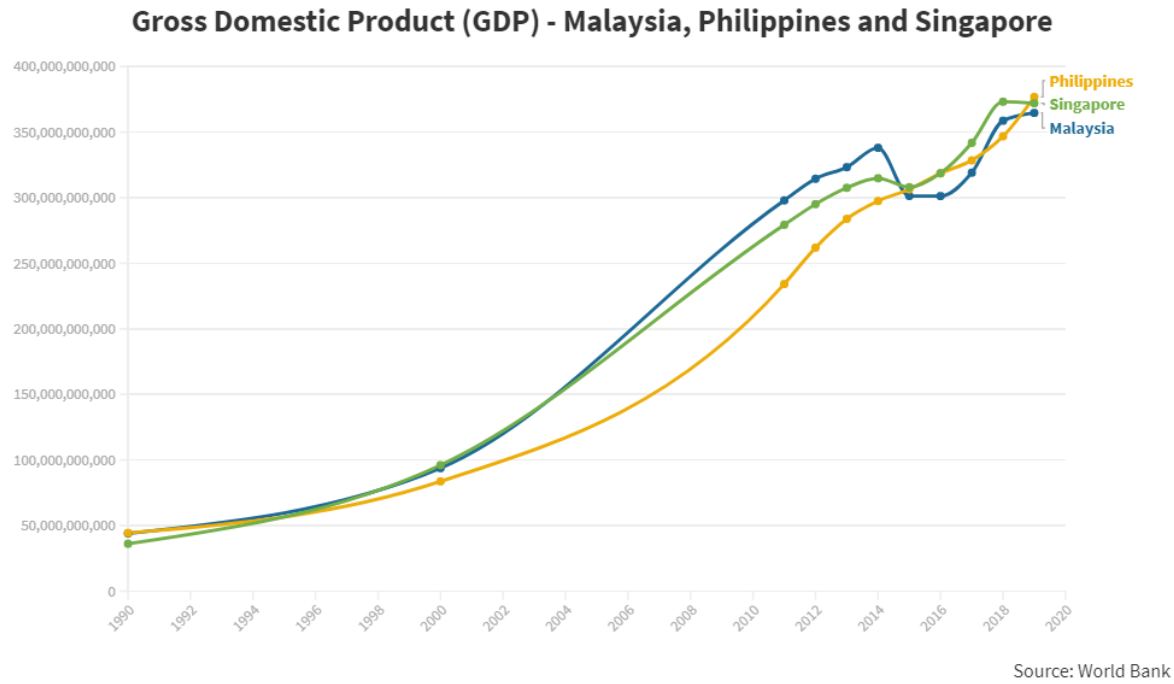
Malaysia Indicator

MEDIA INTELLIGENCE REPORT

24 February 2021

Drowning in Crisis

The Covid-19 pandemic which first hit Malaysia in February 2020 and worsened later in October had aggravated the economy causing the livelihoods of many Malaysians.



Due to the lockdown implementation, the government's gross domestic product (GDP) plunged to -17.1% in 2Q2020. However, the GDP showed an improvement in the 3Q2020 with a -2.7% rate after the government decided to reopen the economy after the Movement Control Order (MCO).

Subsequently, the government's GDP is projected to grow between 6.5% to 7.5% for 2021 as the economy is moving towards recovery along with the global demand. However, the Covid-19 cases since October 2020 has been increasing and we have recently surpassed the 5,000 mark in January 2021.

Therefore, the economy might not rebound as fast as we expect as Covid-19 continues to rise and the MCO and Conditional Movement Control Order (CMCO) is being imposed in several states to curb the spread of infections.

Following the news on the surge of Covid-19 cases, many are expecting the government to implement the lockdown we had back in March 2020 including former Prime Minister Najib Razak who urged the government to reimplement a stricter lockdown.

Health director-general Dr Noor Hisham Abdullah explained that the health ministry initially planned for a total lockdown to combat the third wave. However, due to the huge economical impact that the it has caused from the first lockdown, the government opted for the CMCO instead.

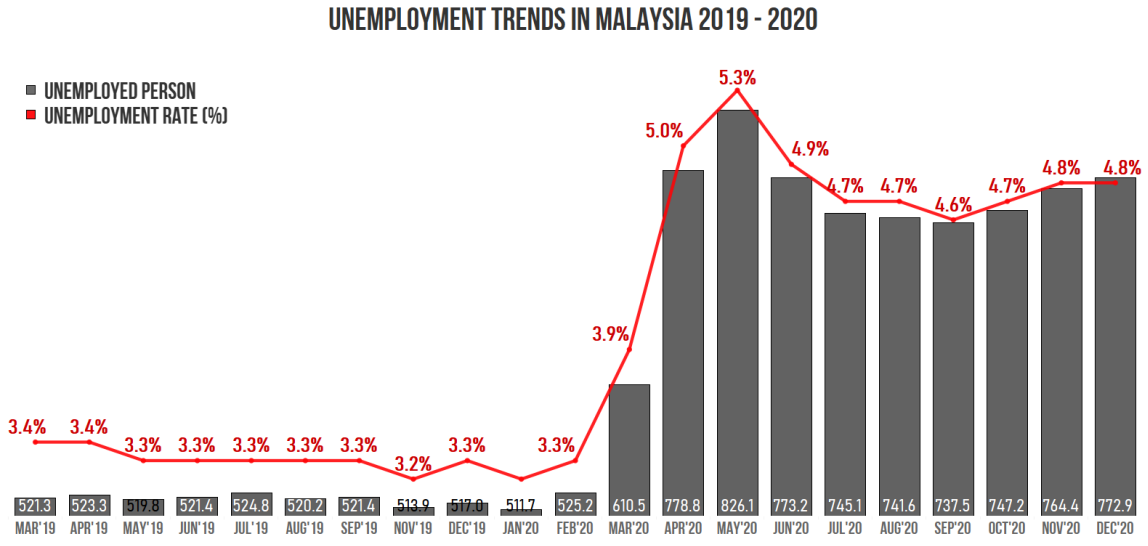
Unemployment Rate

Although health experts such as Prof Dr Moy Foong Ming, from Universiti Malaya's Department of Social and Preventive Medicine and Medical Practitioners Coalition Association of Malaysia president Dr Raj Kumar Maharajah called for a more stringent MCO, another restricted lockdown might hurt the economy which is still in the midst of recovery.

Defence Minister, Ismail Sabri Yaakob depicted a grim a picture for Malaysians if the government imposed a total lockdown, showing the possibility of 2.8 million people who may risk their jobs.

The Department of Statistics Malaysia (DOSM) have also revealed that the unemployment rate in Malaysia have skyrocketed after the full lockdown was imposed which caused businesses to struggle as they're activities became restricted. Thus, more businesses grappling with the economy had to shutter their business, declare bankruptcies and later retrench its workers.

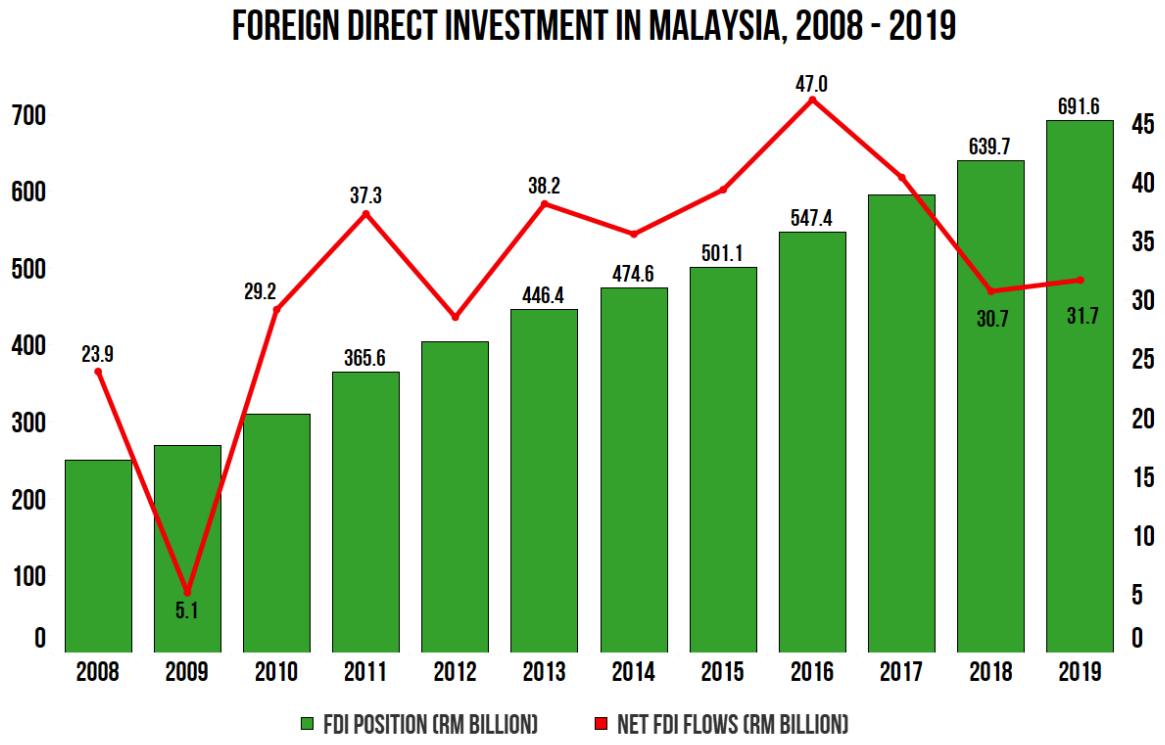
Furthermore, a report from the Companies Commission of Malaysia revealed that 13,445 companies have closed since the first lockdown in March until October 2020.



Previously, the unemployment rate was at its highest during May 2021 at 5.3%. However, after the government imposed a more relaxed MCO, the unemployment rate decreased to 4.7% in July 2020 but worsened in December at 4.8% with a total of 772,900 unemployed Malaysians.

Malaysia chief statistician Datuk Seri Dr Mohd Uzir Mahidin revealed that 83.4% of them were actively seeking for new employment while the rest were categorized as "inactively unemployed or discouraged". Nonetheless, with the growing cases of Covid-19, it is still unclear whether the unemployment rate can recover to pre-pandemic levels.

Declining FDI



Source: Department of Statistics Malaysia

Apart from the worst-ever plunge in GDP and the unemployment rate which soared higher due to MCO, the Foreign Direct Investment (FDI) also saw a sharp 68% decline to RM10.1 billion last year as compared to the RM37.1 billion in 2019.

Globally, all FDI contracted by 42% from US$1.5 trillion in 2019 to US$859 billion in 2020. However, the United Nations Conference on Trade and Development's (UNCTAD) Investment Trends Monitor revealed that Malaysia's FDI rate was worse than both its neighbouring countries and the rest of the world during the pandemic.

In the ASEAN region, Thailand's FDI contracted to by 50% while Singapore, Indonesia and Vietnam registered FDI declines of 37%, 24% and 10% respectively.

In contrast, Philippines has gotten out of the 'sick man' skin for having poor economic records as their FDI rate rose by 29% in 2020. Since Malaysia is now at the losing end in FDI as compared to our neighbouring countries, will the country end up becoming the new 'sick man' in the ASEAN region?

Having said that, the nosedive in our economy did not happen overnight since the plunge in FDI happened prior the Covid-19 pandemic and the change of hands in our government.

The Najib Era

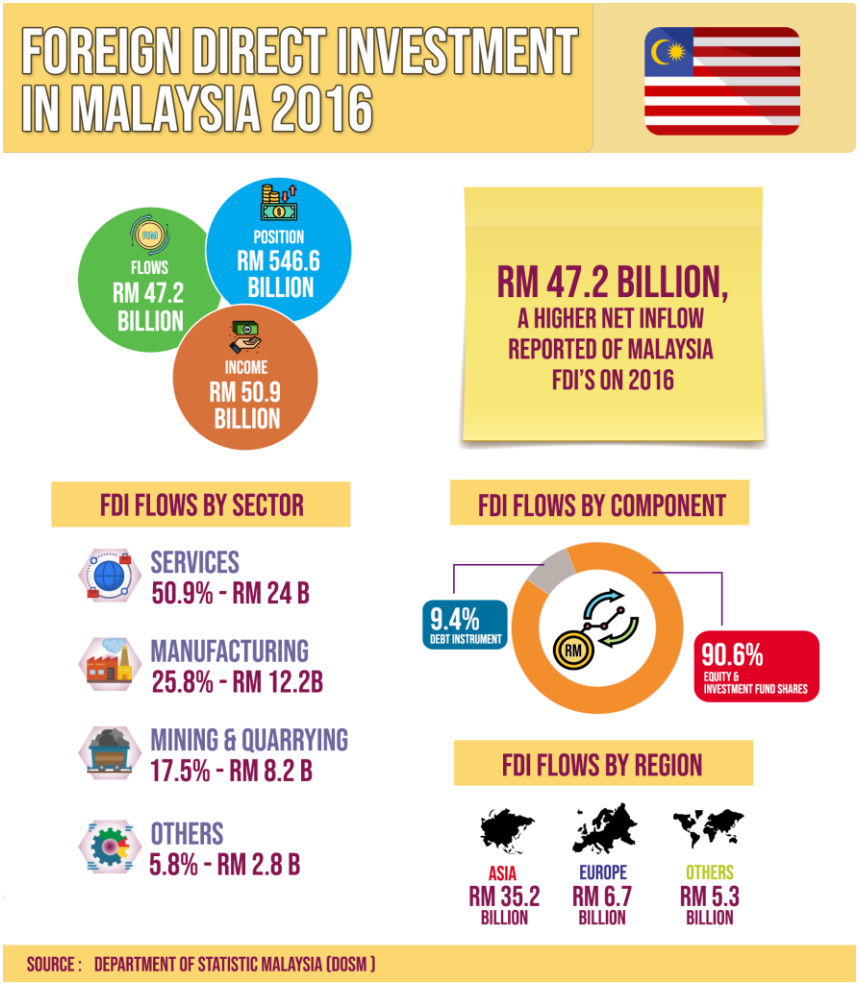
Strong Reliance on China

During the Najib Razak administration in 2009 until the fall of Barisan Nasional in 2018, the FDI recorded the highest in 2016 at RM47 billion.

Although Najib Razak's tenure was controversial due to his ongoing SRC trials, the FDI rate during his premiership was much stronger but slowly decreased in 2017 by 12.8% to RM41 billion from RM47 billion in 2016.

The sharp growth in FDI is largely due to the confidence shown by Asia countries such as Hong Kong, Singapore and China. Nonetheless, it is clear that during the Najib-led government, there was a stronger reliance on China's funding which further strengthens China's Belt and Road Initiative (BRI), mooted by President Xi Jinping of China.

Some of China's mega investments in Malaysia are the East Coast Rail Lina (ECRL), Melaka gateway, and the Kuala Lumpur-Singapore High-Speed Rail (HSR).



Modern-day Colonization

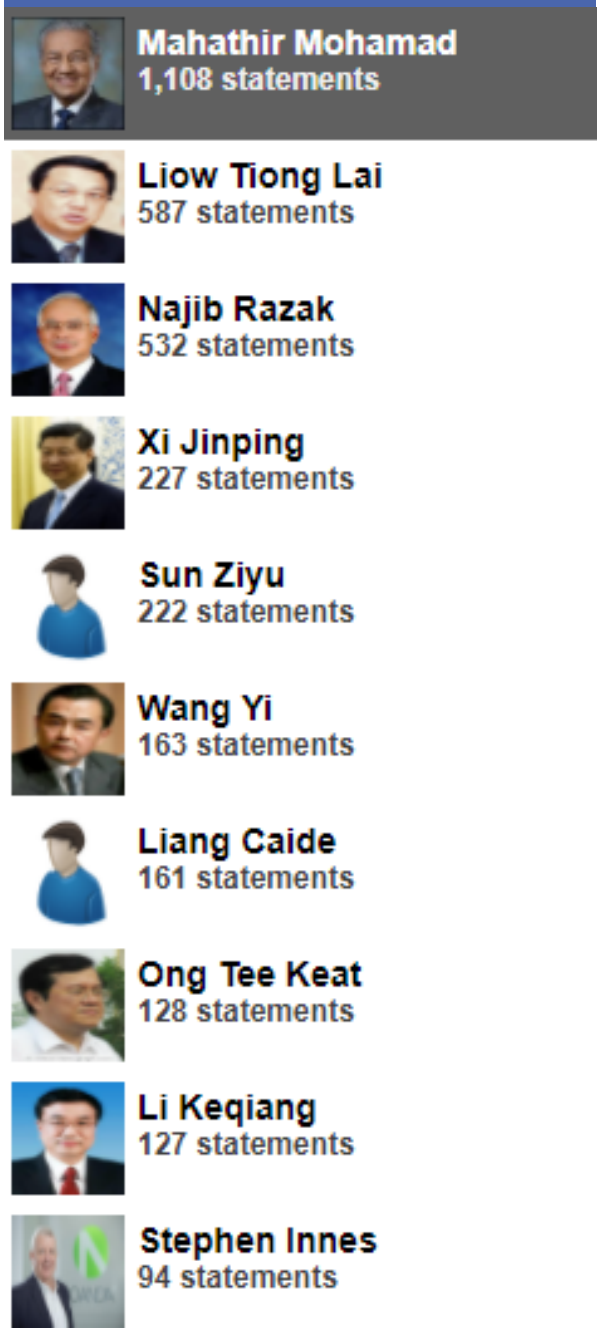
On the other hand, former prime minister Mahathir Mohamad which led Malaysia for two decades and was re-elected again as prime minister in 2018, had opposing views of the reliance on China despite the BRI.

Prior to the ousting of the Barisan National government, Mahathir has been a vocal opponent of the Chinese influence, describing it as “modern-day colonization” and claimed that Najib “sold off” Malaysia to China.

Due to the change in power, Chinese-backed mega projects were reviewed again which resulted in the termination of several major projects such as the Melaka Gateway, the US$20 billion ECRL project and the two gas pipelines worth US$ 2.3 billion, as the country fears the “new colonialism” and its increasing debts due to the 1MDB scandal.

Nonetheless, the ECRL project was later allowed to resume after the cost was reduced by US$ 5.3 billion. Looking at the influencer list of the Belt Road Initiative topic in 2018, Mahathir controlled the narration with his opposing views.

Belt Road Topic Influencers 2018

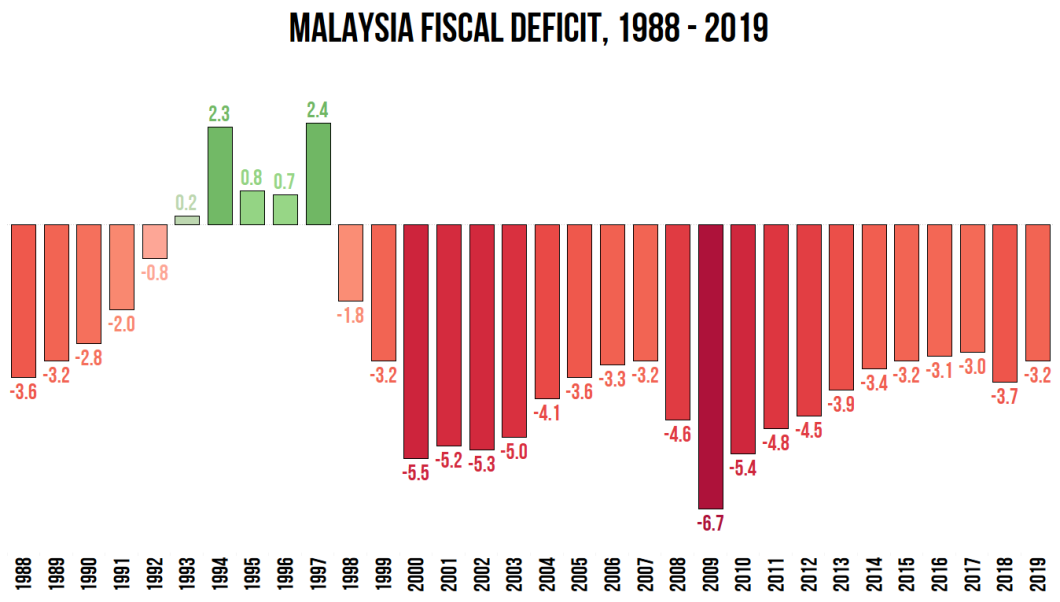


Mahathir Mohamad
Nov 14th, 2018 · The Sun Daily
We have no problem with that (BRI), except of course we would not like to see too many warships in this area because (a) warship attracts other warships."

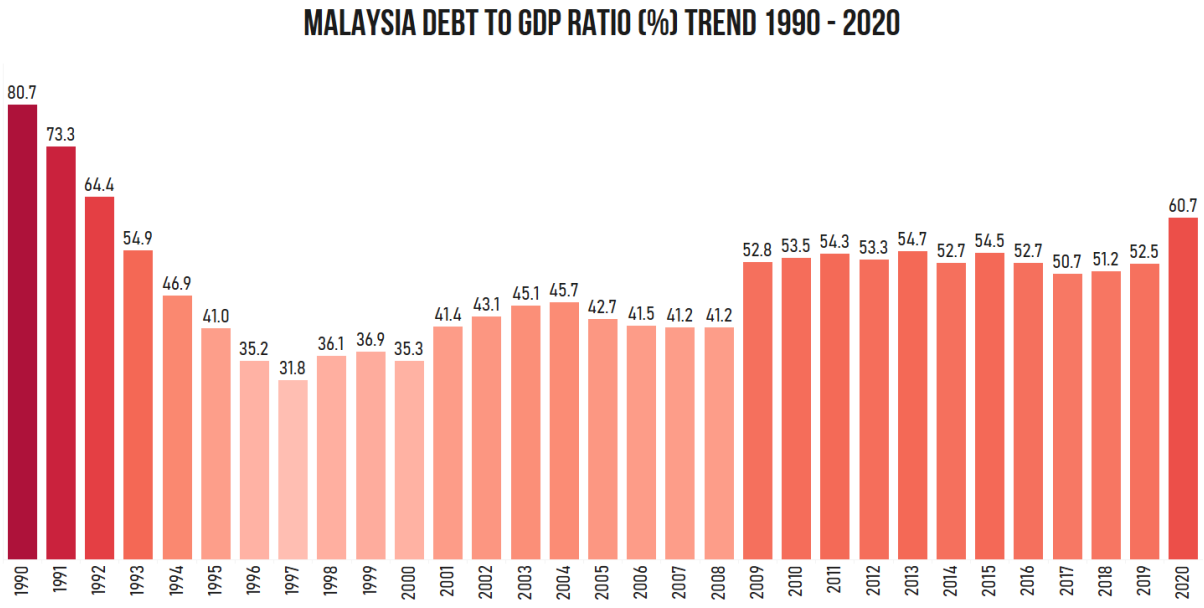
Mahathir Mohamad
Dec 31st, 2018 · Free Malaysia Today
they would soon be overtaken by its poorer neighbours because Malaysians "expect handouts rather than work hard".

The Fiscal Deficit Climb

Aside from the strong reliance on the Chinese funding, Najib's tenure showed a stark contrast in Malaysia's fiscal deficit to a -6.7% after he introduced two stimulus packages worth of RM7 billion and the second package amounting to RM60 billion to mitigate the global economic turn-down.



Due to the high deficit, the government recorded its debt to 52.8% in 2009 after the debt-to-GDP ratio has significantly declined from 80.7% in 1990 to 31.8% in 1997. Thus, the government self-imposed a debt ceiling to 55% in 2009 which continues to stand at this figure up to this day.



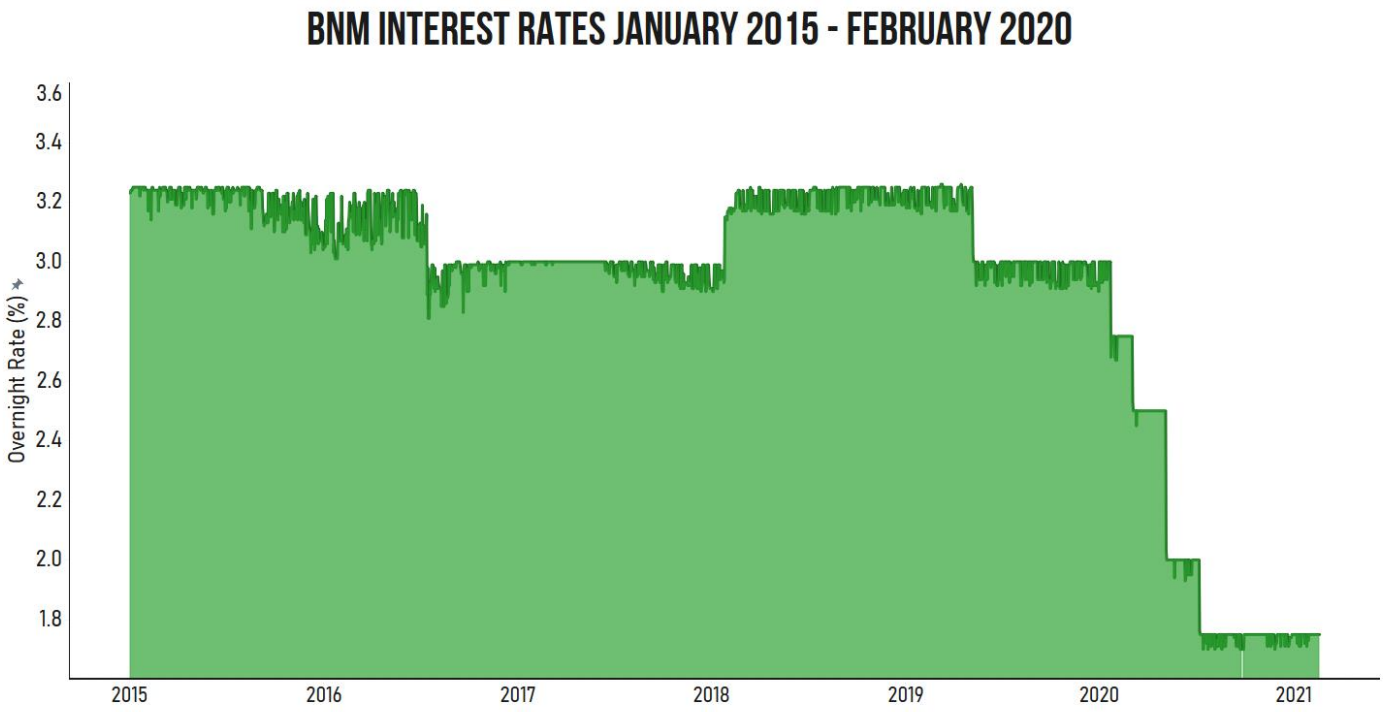
A Decade of Low OPR

Having said that, Malaysia's interest rate have remained low for the past 10 years, particularly during Najib's administration in 2009 when the interest rate dropped to 2%. Previously, the Overnight Policy Rate (OPR) rate was at 3.5% in 2007 but was later decreased in 2009 amid the global financial crisis in 2007 to 2009.

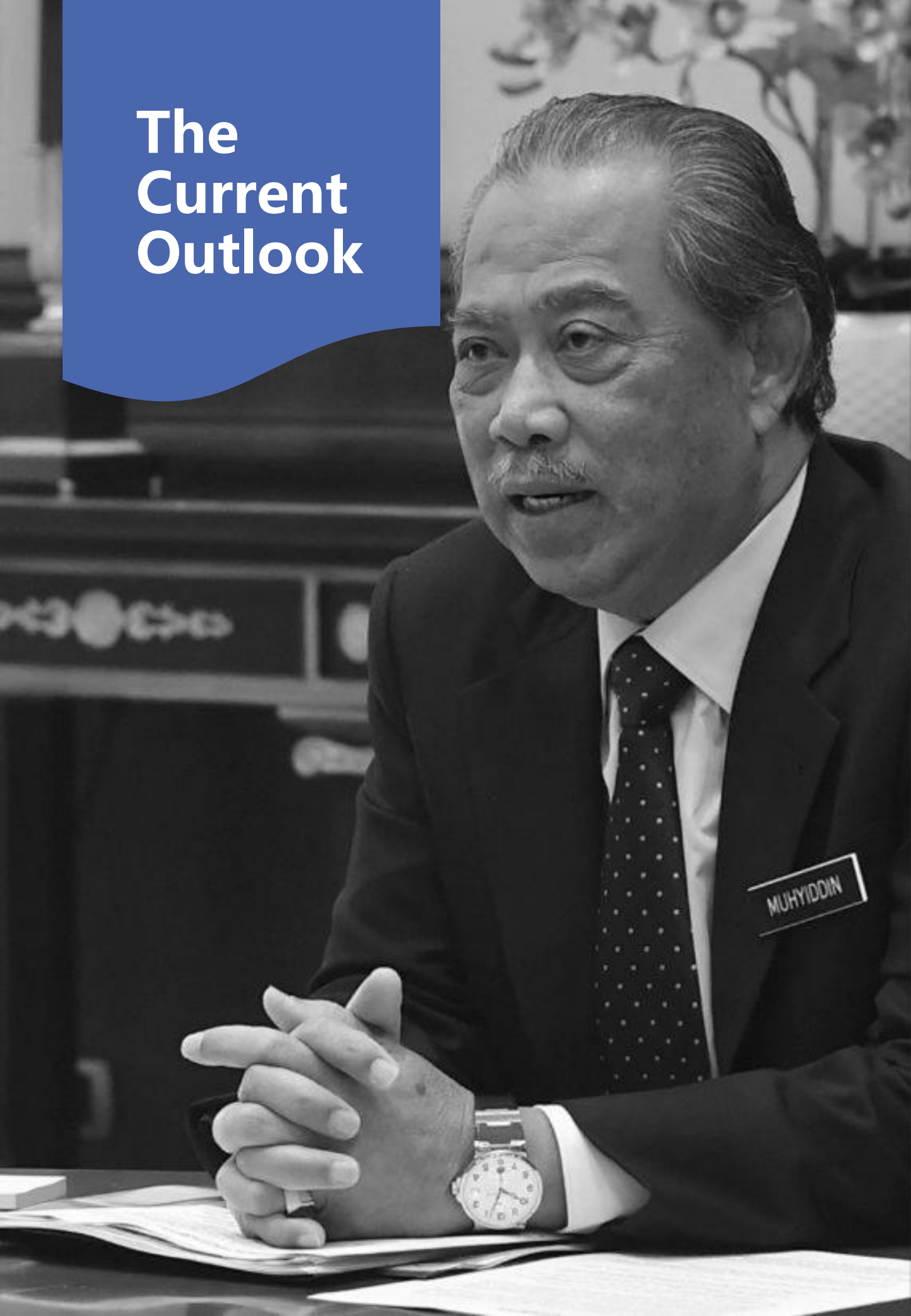
However, looking at the current trend, the OPR have been declining since 2019 when the Pakatan Harapan government took over in 2018 and further goes downwards as Covid-19 takes a toll on our economy.

Currently, Malaysia's interest rate is now at 1.75%, the lowest rate recorded in history defeating Najib's worst performing OPR rate in 2009. The lower interest rates by Bank Negara Malaysia is to stimulate the growth of the economy during a time when people avoid to spend.

Therefore, the recovery for Malaysia's economy is a blur after the pandemic hits our economy topped with the economic issues from the Najib-led government.

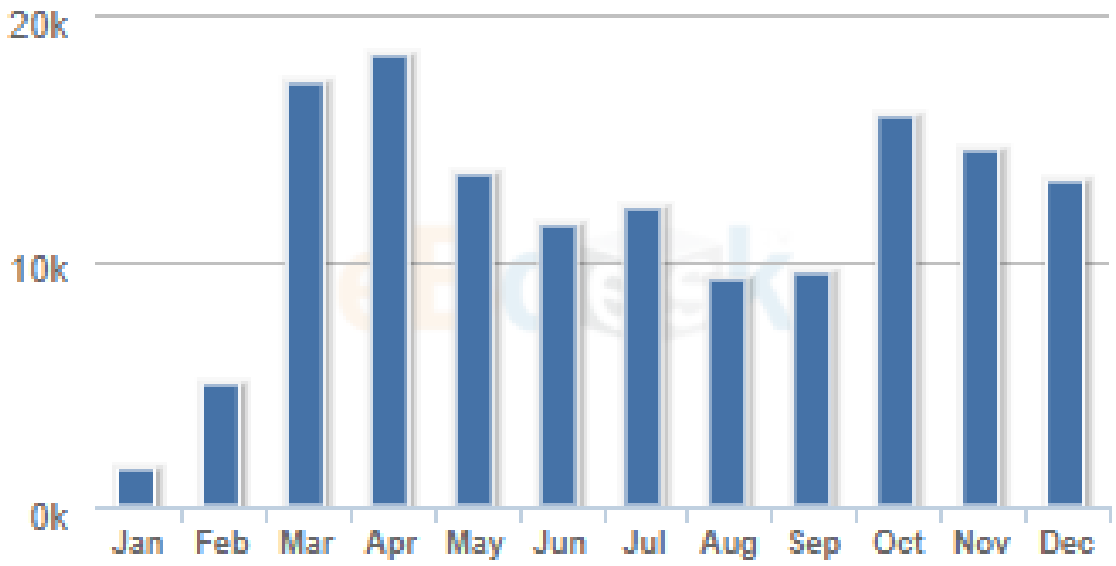


The Current Outlook



A Time of Crisis

Media Coverage on Covid-19 in Malaysia during 2020



Muhyiddin Yassin was sworn in as the eigth prime minister at a time when Malaysia was beginning to cope with Covid-19 pandemic. During the first wave of Covid-19 in Malaysia, the cases were mainly imported. It was only on the 6 February 2020 when there was a Covid-19 case detected from local transmission.

On March 18, Muhyiddin imposed the first total lockdown in Malaysia as cases exceeded 100. During this period, many were struggling to carry on with their lives as they become more restricted. Apart from that, teachers and students also had to learn how to conduct classes from home.

Although more people were getting used to the “new nornal”, many still find it difficult to survive as some were laid off from their jobs or experience pay cuts as many companies had to downsize to cope with the current situation.

In response to the surge of Covid-19 cases which resulted to the full lockdown, the Muhyiddin-led government decided to provide aid to Malaysians from various sectors to stimulate the economy.

After a few weeks being in office, Muhyiddin announced the first stimulus package called the Pakej Rangsangan Ekonomi Prihatin Rakyat or PRIHATIN for short which was worth RM250 billion on 27 March 2020.

Mak Cik Kiah Stimulus Package

The RM250 billion stimulus package which sparked the “Mak Cik Kiah” analogy to explain how the financial assistance will help the people, comprises of three goals which were to protect the people, support businesses and strengthening the economy.

Although the RM250 billion seemed like a huge amount for the government to engage, only RM25 billion was used from the direct fiscal injection while the rest comes from the loans, loan payment deferment sand rental waivers. Through this financial assistance, the government plans to create a multiplier effect for the overall consumption and consumer spending.

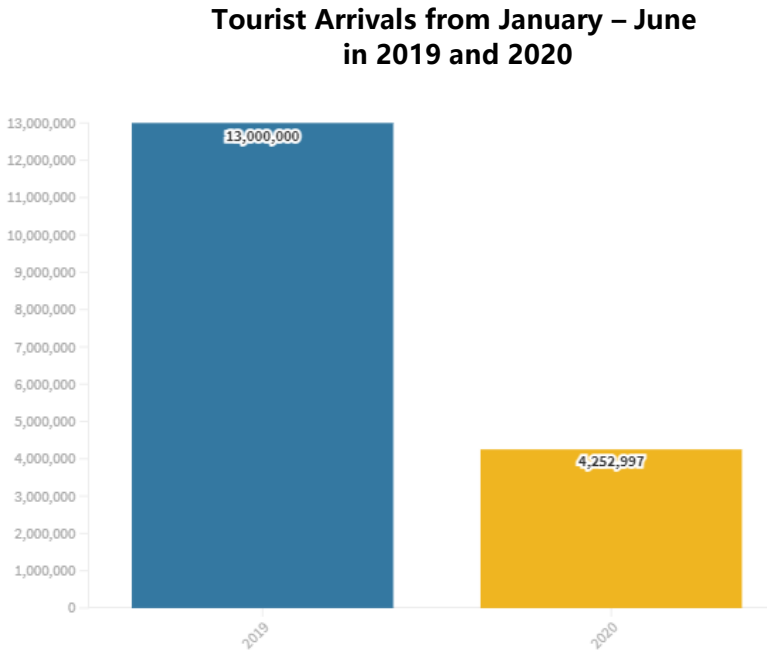
MAIN HIGHLIGHTS

- **Bantuan Prihatin Nasional (RM10 billion)**
- **Curb Covid-19 (RM1.5 billion)**
- **Wage Subsidy Programme (RM6 billion)**
- **Withdrawal from EPF Account 2 (RM6 billion)**
- **Additional Fund for SMEs (RM4.5 billion)**
- **Danajamin Corporate Guarantee Scheme (RM50 bil)**
- **Loan Moratorium (RM100 billion)**
- **Small Projects (RM2 billion)**
- **Assiatance to Students at HILs (RM10 billion)**
- **Electricity Bill Discount (RM0.5 billion)**

Despite the RM4.5 billion allocation for SMEs, there were several criticisms towards the stimulus package where many felt that the SMEs were sidelined from the RM250 billion allocation during MCO when they had to stop their operations.

Apart from that, there are so direct and indirect impact across the services and manufacturing sectors such as restaurants in shopping malls, hotels and manufacturing companies.

Downfall in Businesses



Source: Ministry of Tourism Malaysia

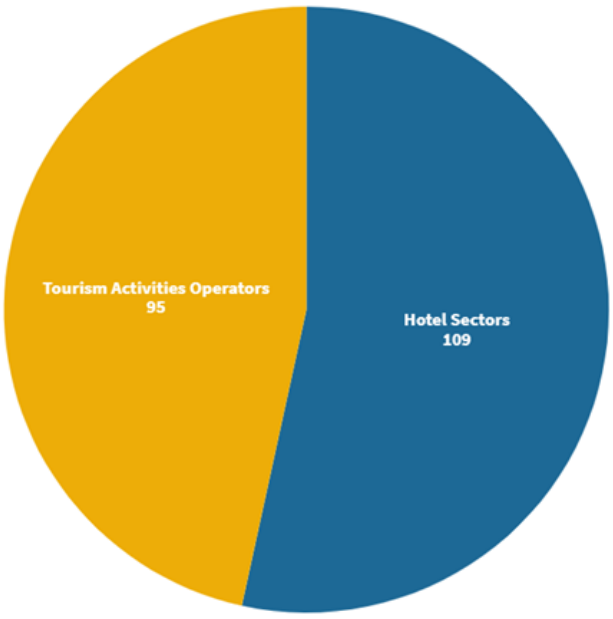
Amongst other sectors which have been heavily affected is the tourism sector as tourist arrivals have decreased by **68.2%** in the first half of 2020 due to the closure of international and interstate borders.

The Ministry of Tourism Malaysia also revealed that the **tourist expenditure** had also **decreased by 69.8%,** recording a total of **RM12.5 billion** compared to the **RM41.6 billion** accumulated in 2019 for the same period.

BUSINESS CLOUSURES

The travel restrictions have also caused **204** tourism and hotel operators to **shut down** their business since March, due to the Covid-19 pandemic.

The **109** entities in the hotel sector includes hotels, resorts, motels, homestays and chalets, while **95** others were tourism agencies and tourism activities operators.



Source: Ministry of Tourism Malaysia

PENJANA Stimulus Package

In reponse to the declining growth in the business and tourism sectors, the government introduced another stimulus package, Plan Jana Semula Ekonomi Negara or "Penjana" for short, which is more targeted to stimulate the economy by stregthening the business sectors.

The RM35 billion PENJANA stimulus package which comprises a RM10 billion direct fiscal injection will not only help business sectors to boost the economy but to provide upskilling as domestic unemployment rate was projected to reach 5.5% by end of 2020.

Asisstance to the People

Among the 40 initiatives in the PENJANA stimulus package some of the insentives for the people are RM3,000 tax rebates to parents for child expenses, stamp duty waiver for properties priced between RM300,000 to RM2.5 million, 70% loan cap, automotive sales tax, RM1,000 travel tax relief, tourism tax exemption and service tax on accomodation and RM50 million media coverage for B40 group.

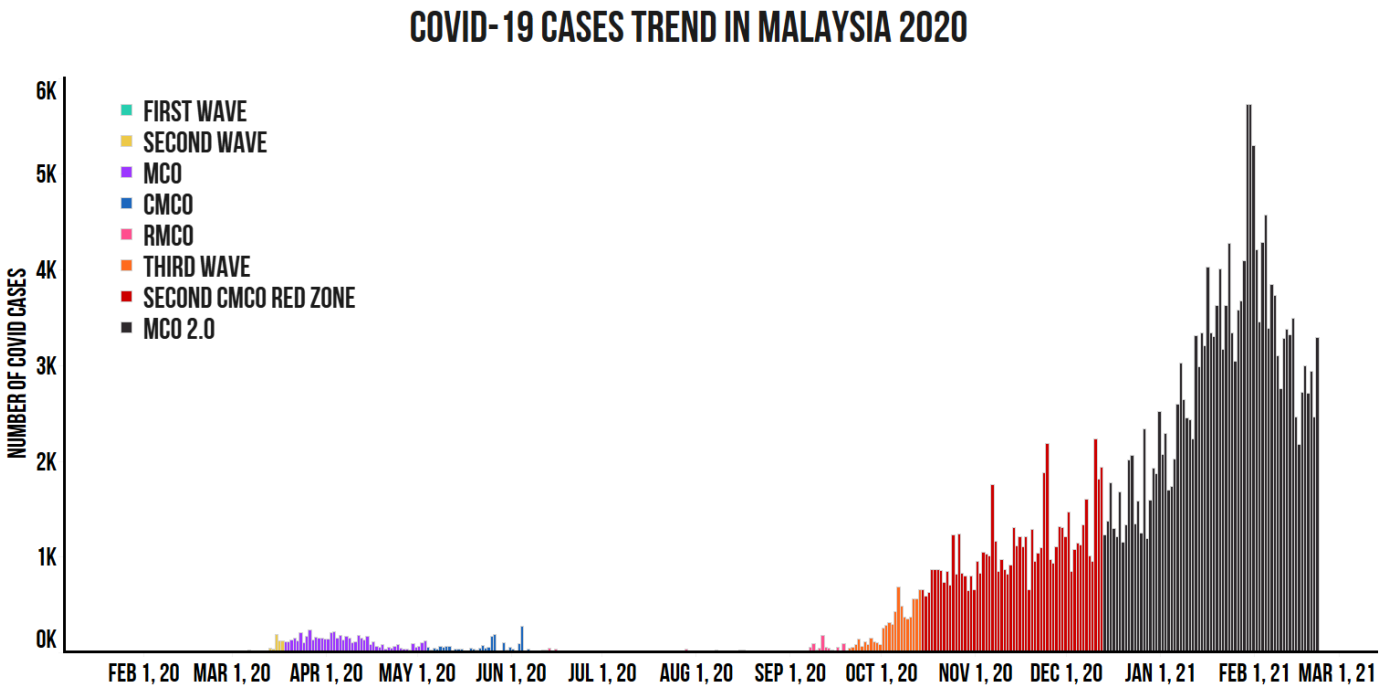
Asisstance to Businesses and SMEs

Apart from that, some of the assistance given to businesses are 3 months wage subsidy extension, incentives for hiring people, RM5,000 tax relief for employees who receive IT devices from employers, RM300 million loan for MARA entrepreneurs, RM450 million loan for microbusinesses and RM700 million grant and loans for digital transformation.

Other Initiatives

Aside from helping the citizens and alleviating burden on several business industries, the government also included RM1.2 billion allocation for domestic venture capitals, RM350 million Dana Agrofood loans for farmers, RM225 million for creative industries, 0% tax for new foreign direct investment in manufacturing industry and 100% export duty exemption for palm oil.

The Surge of Covid-19 Cases



As seen in the trend above, the Health Ministry managed to flatten the curve in the beginning of 2020 but Covid-19 cases skyrocketed in in October and further worsened in January 2021. In late December 2020, daily cases were exceeding 1,000 cases.

Aside from the severe Covid-19 situation, the political sphere in Malaysia was also becoming more unstable. Thus, the King declared a state of emergency in Malaysia to stop the spread of third wave of Covid-19 infections as our health care systems were shifting to a breaking point with the most government hospitals reaching their maximum bed capacity.

On 29th to 31st January, the number of cases breached the 5,000-mark causing many Malaysians to be in shock. Even though cases have slightly reduced in February, it is still within the four-digit number.

Although the director-general Noor Hisham Abdullah stated that the high cases were due to the backlog of cases from last year, he previously warned us in early January that cases might shoot up to 8,000 per day by mid-March if Malaysia's infectivity rate increases.

PERMAI Stimulus Package

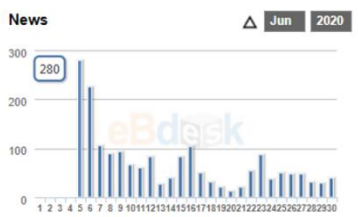
Following the surge of Covid-19 cases and the state of emergency, Muhyiddin's administration revealed another stimulus package, the PERMAI assistance package which is worth RM15 billion with a RM2 billion direct fiscal injection for 22 initiatives.

Generally, the PERMAI financial assistance is to improve the existing ongoing initiatives that the government has introduced which are all aimed to combat the coronavirus, protecting the welfare of the people and supporting the business continuity following the second implementation of MCO.

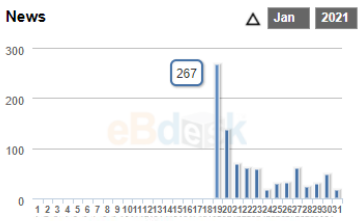
In the latest stimulus package, the government has allocated RM1 billion for supplies where RM800 million will be dispersed to the Ministry of Health while the balance will be allocated to the National Security Council and other relevant agencies. Moreover, the government will also start recruiting additional 3,500 healthcare personnel with an additional RM150 million as many frontliners are now exhausted due to the surge in cases.

Some of the highlights of the assistance were the RM25 million allocation to assist flood victims, elderly, homeless and the disabled, an advance up to RM1,000 under i-Sinar Catergory 2 facility, simplifying the criteria for the EPF withdrawal application, extending the special tax relief on IT devices and three-month PTPTN loan repayment moratorium.

PRIHATIN media exposure



PENJANA media exposure



PERMAI media exposure

In supporting the continuity of businesses in Malaysia, some of the initiatives are a Wage Subsidy Programme 3.0 under SOCSO, expanding the Prihatin Special Grant Plus assistance to cover 500,000 SMEs, soft loans for micro-enterprises, enhancing the Danajamin PRIHATIN Guarantee Scheme and one-off RM500 cash aid for tourist guides and transportation drivers.

Backlash on Financial Assistance

The Malaysian Insight, Jan 18th

Hotel, tourism industry hung out to dry in Permai package, says group

PUTRAJAYA'S latest economic stimulus package has little to offer the battered tourism and hotel industry, which is still trying to recover from the Covid-19 pandemic and the lockdowns, said Yap Lip Seng.

Free Malaysia Today, Jan 18th

Stimulus package is just old stuff in a new bottle, says Najib

Former prime minister Najib Razak says the government's new RM15 billion Permai stimulus package announced today has fallen short of expectations and that most of the initiatives had already been announced previously.

Free Malaysia Today, Jan 18th

Opposition MPs unimpressed with Permai package

Several Pakatan Harapan MPs have derided the newly-announced RM15 billion Permai package, calling it a branding exercise which lacks innovation and substantial details.

The Malaysian Insight, Jan 19th

Only handful of Permai initiatives new, say economists

ONLY a handful of the 22 initiatives announced under the RM15 billion Permai stimulus package are new, said economists.

Business Times, Jan 26th

Govt urged to offer automatic loan repayment moratorium for all

The Malaysian Youth Council (MYC) has called on the government to offer automatic bank loan repayment moratoriums for all, similar to the initiative offered last year.

The Malaysian Reserve, Jan 29th

Uneven distribution of stimulus package leaves some SMEs hanging

The banking community would prioritise companies which have good records with banks and financial institutions, says expert

The Malaysian Insight, Jan 19th

Nothing new in Putrajaya's latest stimulus package, says Guan Eng

PUTRAJAYA's latest stimulus package has nothing new to offer Malaysians and has been recycled from what is already offered in Budget 2021, said Lim Guan Eng.

Free Malaysia Today, Jan 21st

We expected more on wage subsidy, say Sabah employers, SMEs

Sabah businessmen have welcomed the government's RM15 billion Permai stimulus package in general but said it fell short of their expectations on wage subsidy.

Although the Muhyiddin led-government provided the three stimulus package in response to the pandemic, many economic analysts and the opposition have criticized that the current government is not doing enough to help Malaysians during these trying times.

Muhyiddin's PERMAI stimulus package which was introduced few days after the emergency declaration was heavily condemned by the opposition as it was similar to the previous stimulus package, distribution was uneven and that several key issues were not listed such as the automatic moratorium loan and more wage subsidy.

However, looking at the current federal debt which stood at RM874.3 billion or 60.7% of the GDP as of end of September, there might not be enough room for a bigger stimulus package.

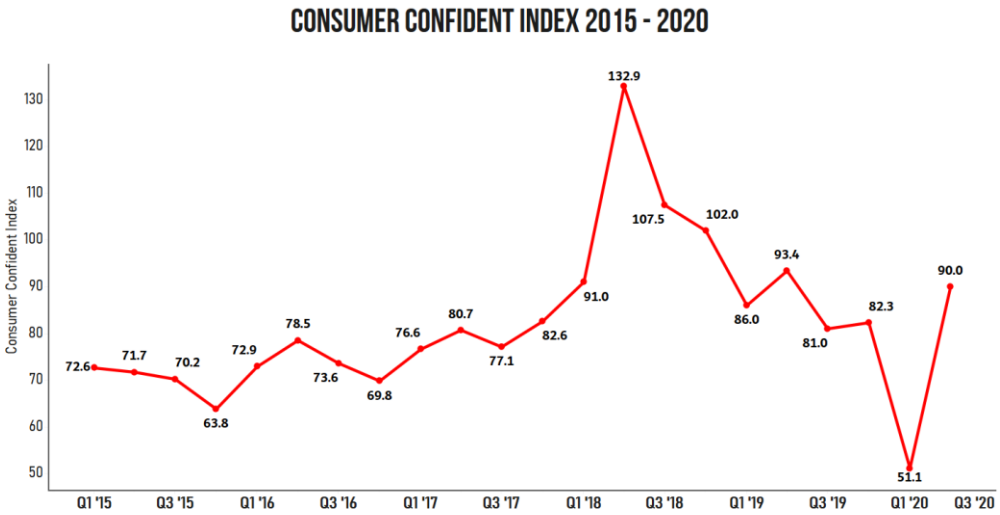
Consumer and Business Confidence

SOURCE : Malaysian Institute of Economic Research (MIER)

Based on the data from the Malaysian Institute of Economic Research (MIER), the Business Confident Index have shown improvement in 2021 after the total lockdown was lifted which allowed most businesses to resume.

MIER revealed that during the 4Q2020 period, the index have improved significantly increasing by 29.1 points to settle at 115.4 points, mirroring the same quick recovery made in 3Q2020 of 25.3 points.

However, the case is different for the Consumer Confident Index which have been declining in the 4Q2020, slipping from 6.3 points to 85.2 from the previous quarter as more consumers are worrying on their income and job security.



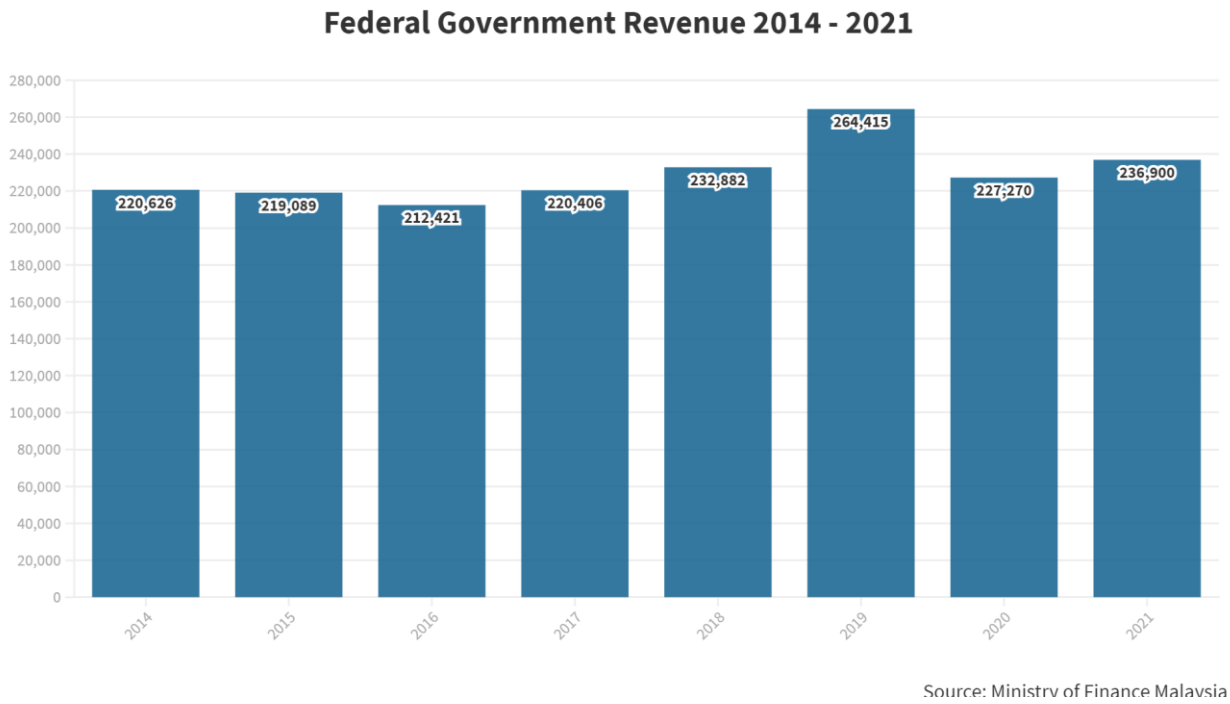
Malaysia's Revenue

Meanwhile, the government's revenue have also slipped in 2020 with only RM227.3 billion, a 14% drop to RM264.4 billion in the previous year where it was the highest record they have achieved since 2014. Based on the Ministry of Finance's (MoF) Fiscal Outlook 2021, the lower government revenue in 2020 was due to the lower tax collection.

However, MoF projected a higher revenue growth of RM236.9 billion or 15.1% of GDP for 2021 despite the economic downturn from the pandemic. The higher revenue projection is expected to come from the support of an improved economic growth where global demands increases with more business prospects.

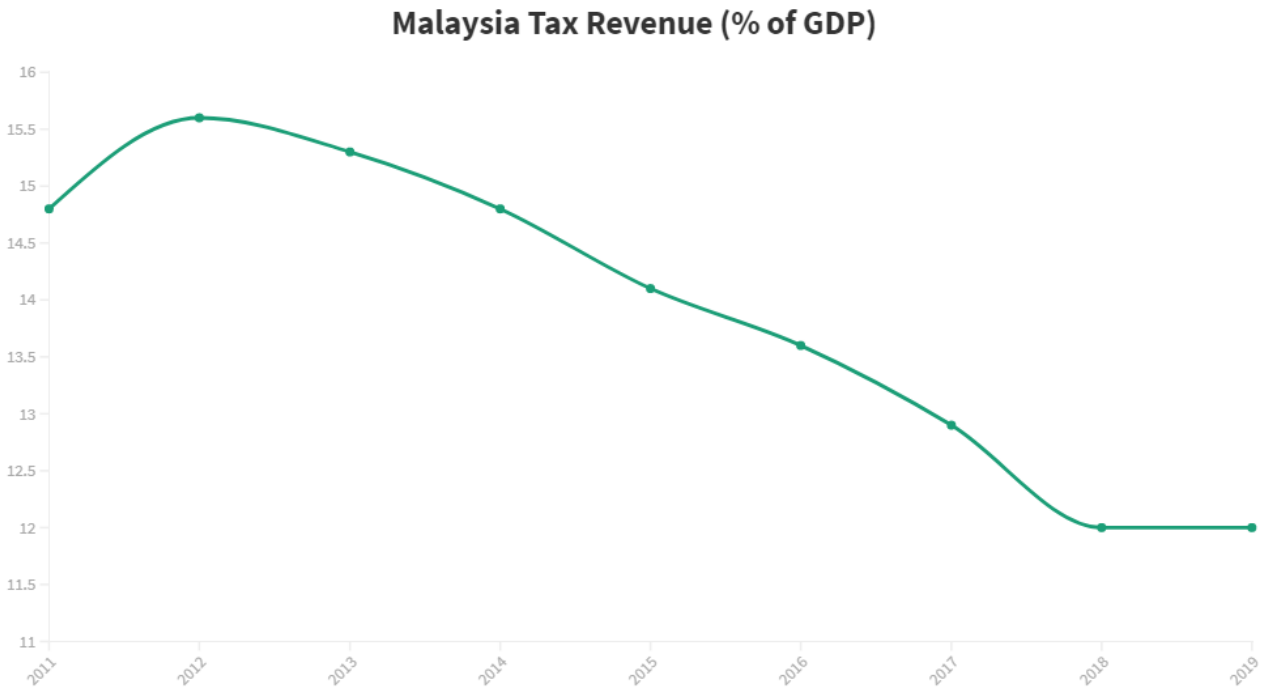
Apart from that, the higher revenue projection is also mainly attributed to an expected increase in tax revenue collection of RM174.4 billion and non-tax revenue of RM62.5 billion.

On the other hand, the government also estimated a total expenditure of RM322.5 billion or 20.5% of GDP where the operating expenditure will cost RM236.5 billion while development expenditure is budgeted at RM69 billion. The remaining RM17 billion will then be channelled for the Covid-19 fund disbursement.



Source: Ministry of Finance Malaysia

Bringing Back GST?

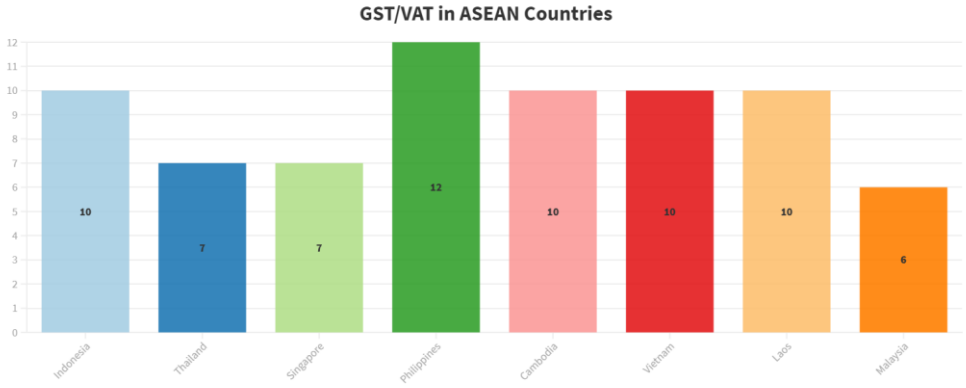


Source: The World Bank

Amongst the positive aspects during Najib's tenure was the implementation of the Goods and Services Tax (GST) in 2015. Unfortunately, it was abolished during the Pakatan Harapan regime which brought back the Sales and Service Tax in 2018.

However, throughout 2016 to 2019, the governement revenue soared higher from RM212.4 billion to RM264.4 billion which proves that the GST have shown progression in increasing the government's revenue.

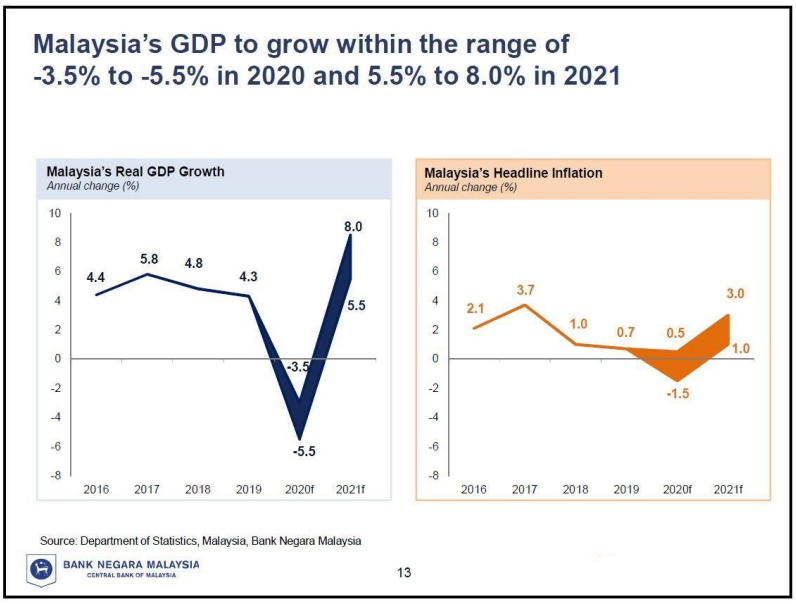
Although the GST was heavily criticised which resulted to its abolishment, Ernst & Young Economic Outlook 2020 report revealed that the six percent tax rate imposed in Malaysia under GST is comparatively lower than other Asean countries where tax rates are ranged from seven to 12 percent.



Economic Resilience

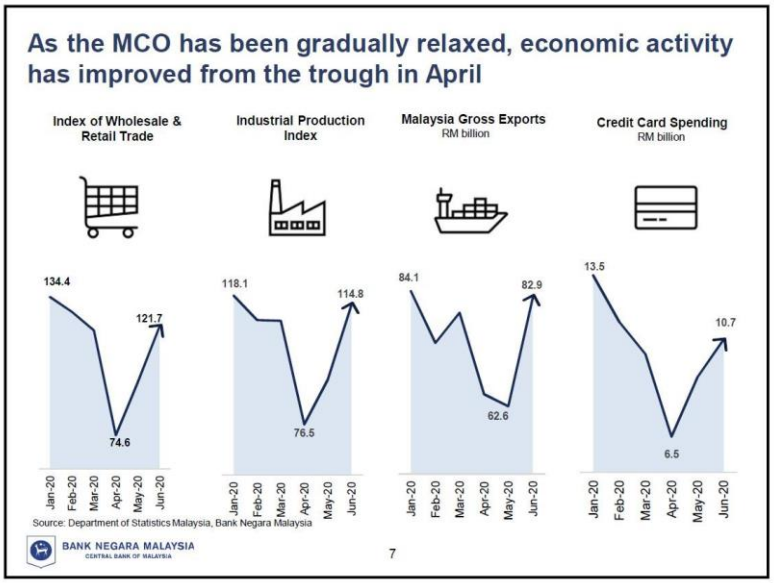
Bank Negara Malaysia (BNM) unveiled that the Malaysian economy is expected to rebounce by 2021 with the GDP projected to grow in the range of 6.5% to 7.5%.

Previously, the government forecasted an economic growth in the range of 5.5% and 8% for 2021 but it was revised after more introduction of stimulus packages.



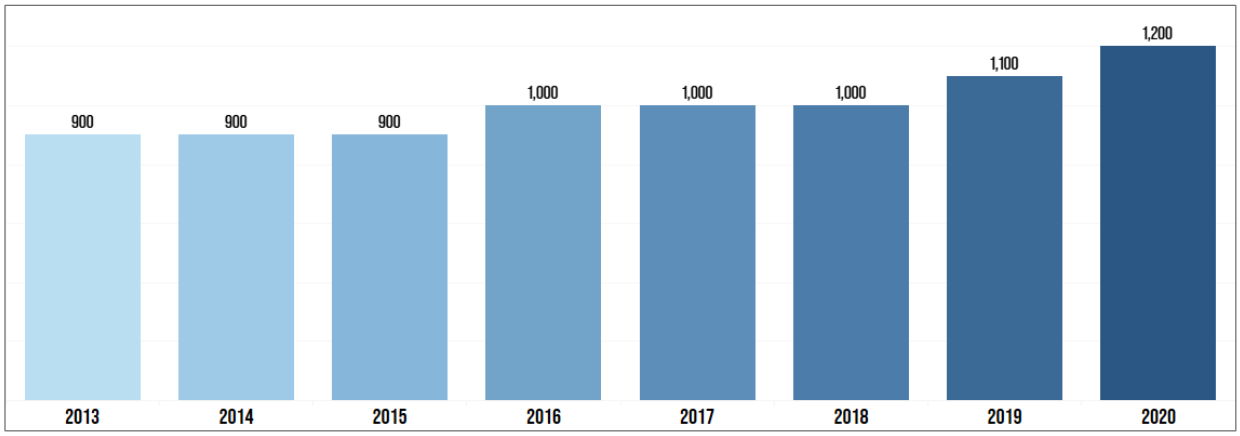
Prior to that, the GDP growth projection for 2020 was also revised from a range between -2% and 0.5% to -3.5% and -5.5% due to the unexpected extension of the MCO, restricting businesses to resume and help boost the economy.

This applies the same to the inflation headline which is expected to hit a deeper plunge in 2020 due to the MCO and lower global oil prices. However, the 2021 inflation headline is forecasted to improve with oil prices progressively increasing .



After the MCO was lifted and replaced with RMCO which encouraged business continuity, most sectors such as wholesale and retail trade, industrial production trade and exports have recovered from the trough in April. Furthermore, credit card spending have also improved during the same period as people become more confident to spend.

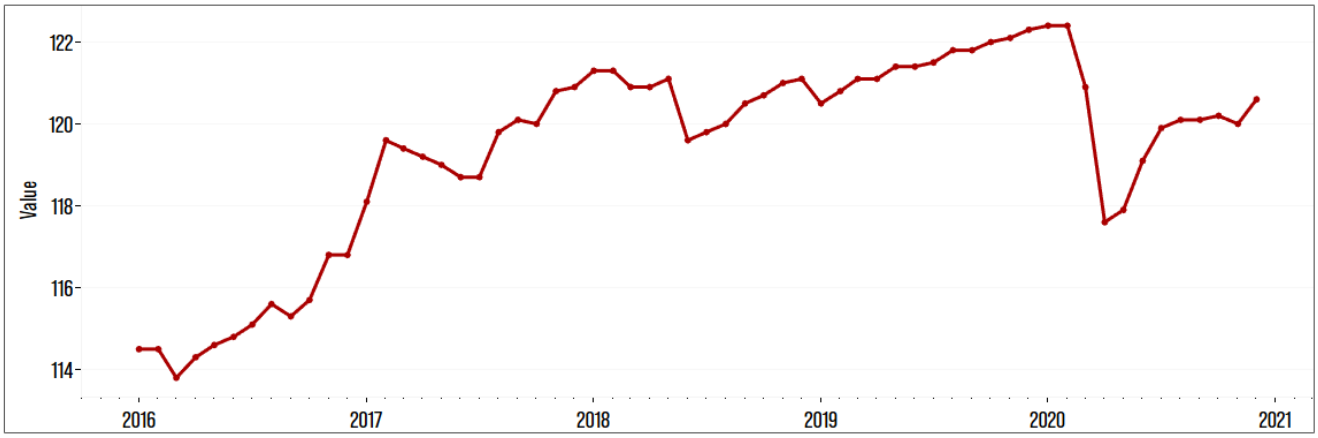
Minimum Wage



SOURCE : Ministry of Human Resource Malaysia

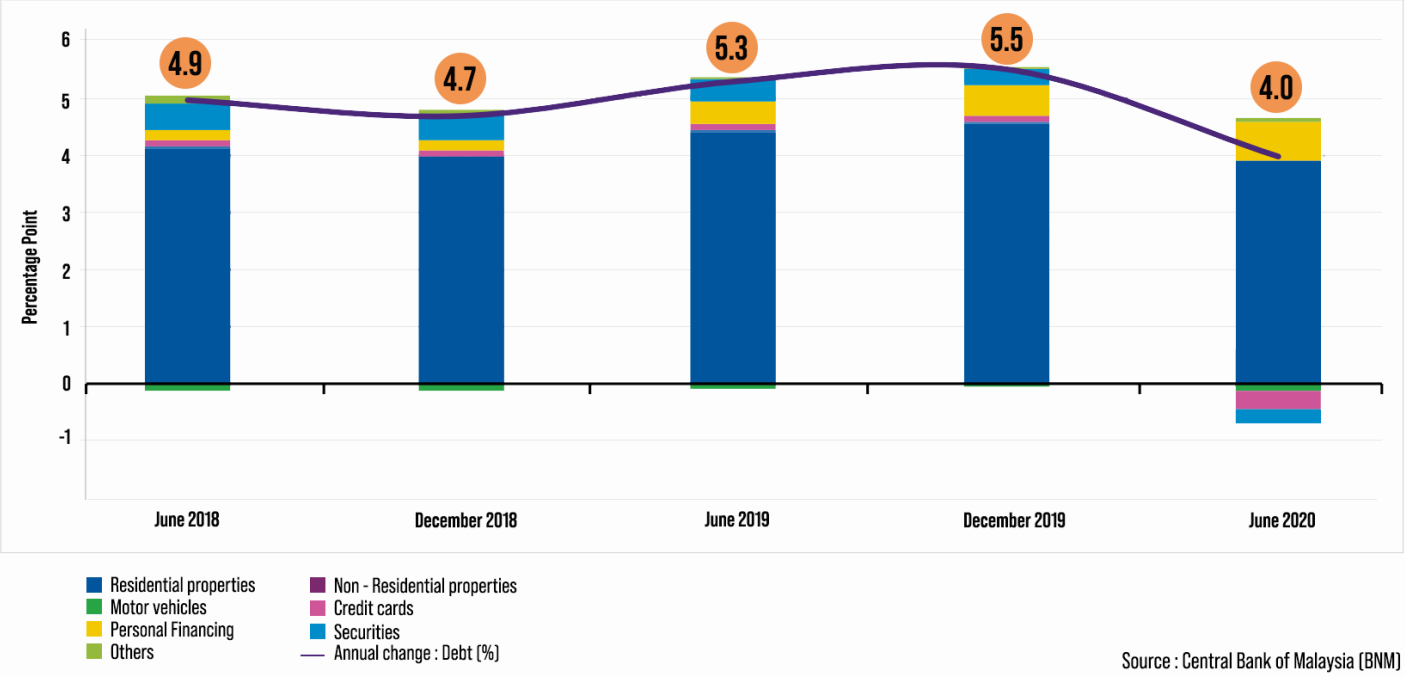
The decline in the Consumer Confident Index might also be linked to the spike in the unemployment rate during MCO as many employers had to retrench their staff to sustain their companies. On top of that, Malaysia's minimum wage since 2013 to 2020 did not made any huge difference with only a mere RM300 increase in a span of seven years.

Furthermore, the Consumer Price Index (CPI) which measures Malaysia's inflation also showed that the CPI took a deep dive since March when MCO was imposed. However, the CPI have slowly picked up and the inflation level is expected to reach 1.7% in 2021 on the underpinning higher commodity prices.



SOURCE : Department of Statistic Malaysia (DOSM)

Household Debt



Source : Central Bank of Malaysia (BNM)

To compensate with the decline consumers' confidence, BNM has decided to maintain its overnight policy rate (OPR) at 1.75% to stimulate the economy which will encourage more consumers to take up loans and increase their spending. Despite the lower OPR rate, the household debt receded to 4$ in the first half of 2020 as compared to 5.5% a year ago, due to the nationwide lockdown.

This was particularly due to the decrease in loan growth for the purchase of residential properties, motor vehicles and credit cards in the first half of 2020. In contrast, there has been an increase in loan growth for personal financing during the same period.

Thus, this goes to show that despite the OPR rate has reduced to allow more disposable income with the reduction in interest payments, many consumers are still not confident enough to spend more to help spur the domestic economy.

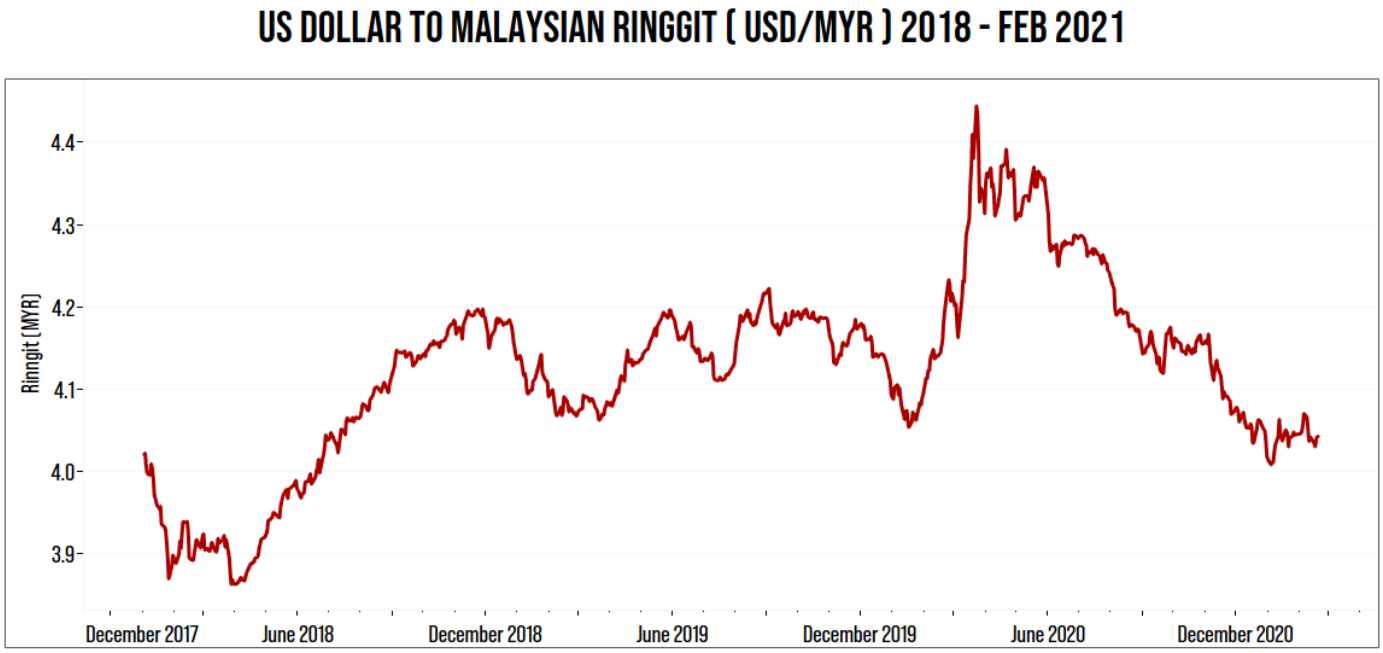
Sovereign Rating Downgrade

Agency	Rating	Outlook	Date
Moody's	A3	Stable	1/2021
Fitch	BBB+	Stable	12/2020
Standard & Poor's	A-	Negative	6/2020
Fitch	A-	Negative	4/2020
Fitch	A-	Negative	4/2020
Fitch	A-	Stable	7/2019
Fitch	A-	Stable	2/2019
Moody's	A3	Stable	12/2018
Fitch	A-	Stable	8/2018
Fitch	A-	Stable	3/2018
Moody's	A3	Stable	12/2017
Fitch	A-	Stable	8/2017
Fitch	A-	Stable	8/2016
Fitch	A-	Stable	7/2016
Fitch	A-	Stable	2/2016
Moody's	A3	Stable	1/2016
Moody's	A3	Positive	1/2015
Fitch	A-	Negative	9/2014

On Dec 4, Fitch Ratings announced that they have downgraded Malaysia's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BBB+' from 'A-' due to the substantial impact on Malaysia's economy and its fiscal burden which was already relatively higher than its counterparts is going into health crisis. However, the outlook on Malaysia has improved from 'Negative' to 'Stable'.

Nonetheless, credit ratings agency Moody's maintained Malaysia's local and foreign currency issue rating at A3 with a stable outlook for the country's economy that is diversified and remained competitive which will underpin a strong medium-term growth which includes that economic resilience from policymaking in terms of macroeconomics which will help the country's debts.

Ringgit's Biggest Threat



SOURCE : Central Bank of Malaysia (BNM)

When it comes to the ringgit performance, our local currency have weakened since last year which was partly due to the change of power in the Malaysian government and the impact of the Covid-19 pandemic. However, towards the end of 2020, ringgit thrusted deeper as Covid-19 cases were soaring higher since mid-September where most cases came from Sabah after the Sabah state elections was held.

In 2018 when Pakatan Harapan (PH) won the 14th General Elections, the ringgit dropped drastically against the stronger greenback when PH took over the government from the Barisan Nasional regime. Although the current situation is not as severe as the ringgit performance in 2018, it is still unclear whether the ringgit can recover since cases are still rising and the emergency declaration.

Looking at the history of the ringgit performance, the local currency tend to decline when there is a change of hands in the government, thus, in a state where the country's economy is still recovering from the impact of the pandemic, the current government needs to hold a strong position with their continuous efforts to manage the country to further strengthen the ringgit.

Political Instability

Free Malaysia Today, Jan 31st

MCO, political instability caused FDI drop, say economists

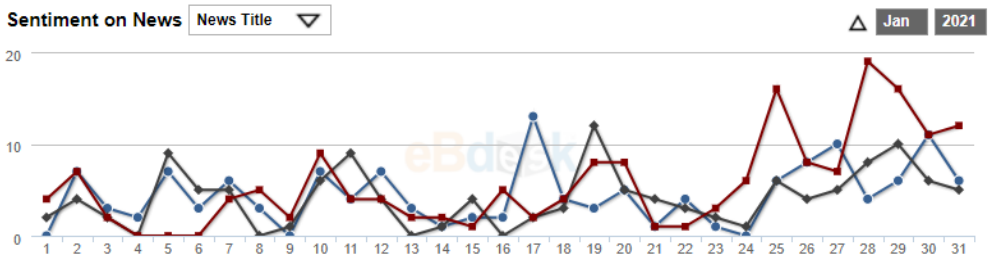
Economists agree that political instability and the effects of the movement control order were among the key factors contributing to the huge drop in foreign direct investment last year.

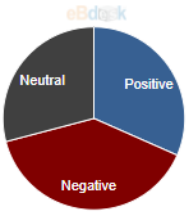
Free Malaysia Today, Jan 27th

Stop using Covid-19 excuse for FDI drop, it's your fault, Anwar tells govt

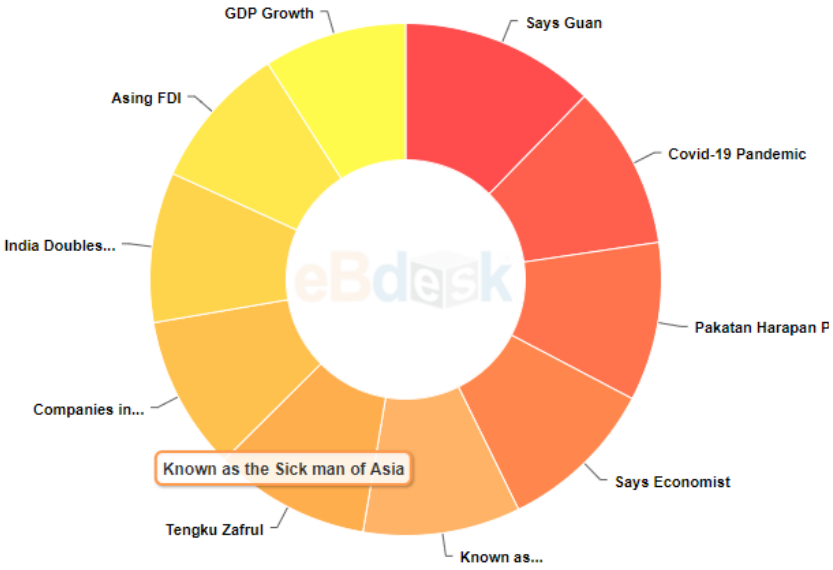
The government must be held accountable for the drastic fall in foreign direct investments (FDI), opposition leader Anwar Ibrahim said today.

Aside from the ringgit performance, the political instability have also caused the FDI to dwindle down according to several economists and the Pakatan Hapan leader, Anwar Ibrahim. The news sentiments for the FDI topic have also garnered more negative news sentiments throughout Janaury 2021 particularly on its spike on the 25th January when news broke on the 68% FDI drop from the UNCTAD report.





Sentiment for Jan 2021

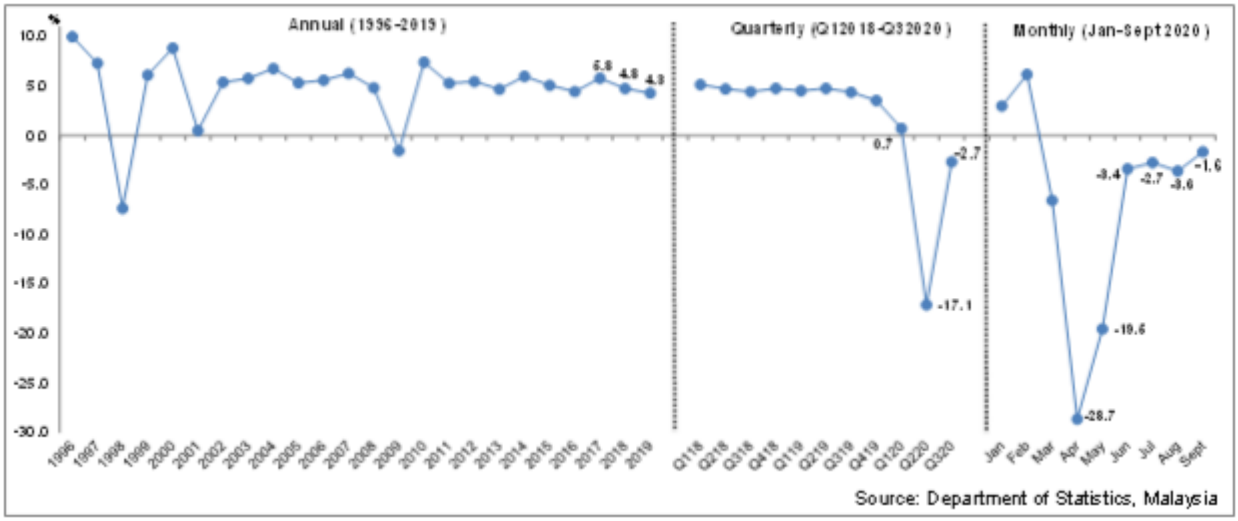


UNCTAD reported that Malaysia's FDI performance was worse than other ASEA countries including Philippines which previously was known as the 'Sick man of Asia' for its low economic records and the reluctance of foreign companies to invest in the country.

However, with Malaysia's poor performance in FDI in the latest UNCTAD report, the country might be the next 'Sick man'.

Fiscal Sustainability

GDP Growth (year-on-year)



Reflecting back on our GDP, the country's economy may be resilient to rebounce from impact of the pandemic as the growth started to slightly spur again in August to September. However, the political uncertainty is may be the biggest threat to our fiscal standing as another change of government or any political chaos might affect our ringgit performance and sway away more foreign investors from Malaysia.

Ultimately, the current government should also keep in mind on the financial strain of the people in facing the pandemic as more people are worrying on thei job security, experiencing pay cuts or retrenchments and trouble to pay off their debts such as their housing loans.

Even though people are asking more financial aid, there is a possibility that the government may not have the capacity to provide more stimulus which can weaken the government's fiscal position as the national debt have already exceeded its limit. Therefore, a better tax reform might be a better option in the near future such as reintroducing the GST in order for us to expand our fiscal sustainability by raising more government revenue along with improving our FDI rate.

Fiscal Position

Revenue Loss

Going back to 2020, the government projected a 50.6% or RM115.5 billion of direct tax out of the total public revenue which is a 14.6% drop from the RM134.7 billion accounted in 2019. MoF's Fiscal Outlook 2021 report stated that the lower direct tax collection was partly due to the weaker economic activity that affected most business and individuals' incomes. On top of that, the report also attributed to the lower crude oil price assumptions that was declining at the time.

When it comes to indirect tax which accounts for 16.8% of the total revenue, MoF expected that it will drop by 19.4% or RM38.1 billion as compared to the initial estimation of RM47.3 billion, with all components expected to decline.

Furthermore, the sales and service tax (SST) is projected to contribute lesser at RM24.5 billion as compared to the RM27.7 billion SST collected in 2019 with sales tax collection projected to reduce by 21.4% or RM12.1 billion against the RM15.4 billion collected in 2019. However, this is in line with the government's PENJANA initiative where they would provide tax exemption for the purchase of locally assembled and fully imported passenger cars.

While the total revenue of GDP is estimated to be lower at 15.8% where 10.6% is comprised of the tax revenue, 5.2% of the revenue constitutes the non-tax revenue.

Non-tax revenue is forecasted to set down a RM74 billion a decrease as compared to RM83.8 billion collected in 2019. The non-tax revenue is largely attributed to higher dividends from Petroliam Nasional Bhd amounting to RM34 billion where RM10 billion of it is a special payment mainly from its divestment exercise in 2019.

Nonetheless, petroleum-related revenue is envisaged to experience a sharp contraction by 40.3% or RM50 billion in 2020 from the RM83.8 billion in 2019 due to the exclusion of a special dividend for tax refunds and reduction in petroleum income tax and royalty comprising to a RM8.5 billion and RM4.2 billion respectively, based on the lower global crude oil prices.

National Debt

Finance Minister Zafrul Aziz is optimistic on Malaysia's GDP growth as he mentioned that the country's economy has shown several signs of recovery after the economic impact from the pandemic.

In the 4Q2020, Malaysia's GDP have contracted to 3.4% due to the increase in Covid-19 cases which shows a -5.6% plunge in the overall performance of 2020, following the movement order and closures of international borders.

However, Zafrul Aziz explained that the contraction was better than the initial forecast by international organizations such as the International Monetary Fund and the World Bank which both projected a -5.8% growth and the Asian Development Bank with -6.0%.

Moreover, international credit rating agency, Moody's Investors Service Inc (Moody's) announced that they are expecting Malaysia's fiscal deficit to shrink around 5.5% of GDP in 2021 from 6% in 2020.

Meanwhile, Affin Hwang Capital chief economist Alan Tan also pointed out that Malaysia's fiscal deficit will be higher at 6% of the GDP as compared to the government's 5.4% initial deficit target for 2021.

Nonetheless, Moody's emphasized that the national debt will most likely remain around 64%-67% of GDP through 2023, after it soared higher in 2020 at around 66% of GDP from 56% in 2019.

Currently, the federal debt as of end of September totalled to RM874.3 billion or 60.7% of GDP while the government's total debt and liability exposures are projected to be at RM1.257 trillion or 87.3% of the GDP.

The federal debt for 2021 is expected to inch up to 61% of GDP, exceeding the national debt ceiling of 55%. Previously, Zafrul Aziz stated that the government has agreed on increasing the debt ceiling from 55% to 60%. However, looking at how things are turning out, the Finance Minister stated that there will be a possibility of raising the debt ceiling above 60%.

Unemployment

Aside from the weaker loan growth, the unemployment rate has also worsened as of December 2020 when it was recorded at 4.8% with a total of 772,900 unemployed individuals where it was the highest since 1993 according to DOSM.

Although the MCO and CMCO is extended in most states due to the Covid-19 cases which are still on the rise, the government is confident in decreasing the unemployment rate to their 3.5% target in line with their initiatives that they have laid out to combat the unemployment issue in the country.

Through the National Employment Council (NEC) meeting on February 9, the Prime Minister's Office (PMO) is expected to welcome more than 160,000 new jobs that will be created in 2021, based on committed investment.

Following that, an NEC Special Task Force (STF) has planned out a strategy to figure out a way to handle the issues of unemployment and mismatch in jobs through matching human capital to industry needs, increasing more high-skilled jobs and to enhance cooperation between academic institutes and the industries.

On top of that, the government is also optimistic as these plans will be in line with the MCO enforcement and the new normal such as organizing webinar sessions and interview sessions.

GST Fills the Hole

With the tax rate comparison with our neighbouring countries, it has shown that the implementation of GST brought back a progressive amount of revenue to the government despite having a much lower rate.

In light of the pandemic, a reintroduction of the GST might be better suited now to increase the government's revenue even with a lower tax rate of three percent may garner more revenue to the government.

Due to the economic fallout after the spread of Covid-19 infections, Malaysia's revenue is expected to contract by 14% to RM227.3 billion in 2020 from RM264.4 billion in 2019.

There were several talks on reimplementing the GST to help boost the government's revenue and fiscal position from economists and analysts to the Pakatan Harapan leader Anwar Ibrahim who removed the GST regime when his party took over in 2018.

On top of that, the Ministry of Finance which formed a committee to study various revenue enhancing methods have also included the possibility of reintroducing the GST.

In 2021, the discussion of the GST reimplementation continues with Affin Hwang Capital Research chief economist Alan Tan stating that the implementation of GST might not be immediate and will likely be imposed by 2022 or 2023 to workout on the planning in terms of rates and tax treatments.

Private Consumption

The government's projection for the economy to grow between 6.5% to 7.5% by 2021 might seem slightly overoptimistic because of the country's questionable fiscal position.

Based on the data from BNM, the loan growth in Malaysia have become weaker after Covid-19 took a toll on our economy, thus, many people have started to avoid taking up loans and started saving instead.

Although the household debt has decreased in June 2020, the percentage of people taking up personal loans have soared higher after the pandemic have hit us.

Other than the fact that people are struggling due to the MCO, banks are offering cheap personal financing attract more people to take up loans during this period to improve their earnings, given that the loan growth in Malaysia is weak due to the increase in non-performing loans (NPLs).

However, the rise in personal financing might not necessarily be healthy for our economy if some people are at a position where they are unable to pay, causing more NPLs. Aside from that, the number of impaired loans have also spiked since the 4Q2020 after the blanket moratorium expired on Sept 30.

Furthermore, the spending power among Malaysians shows that it is low as compared to the previous years as shown in the Consumer Confident Index.

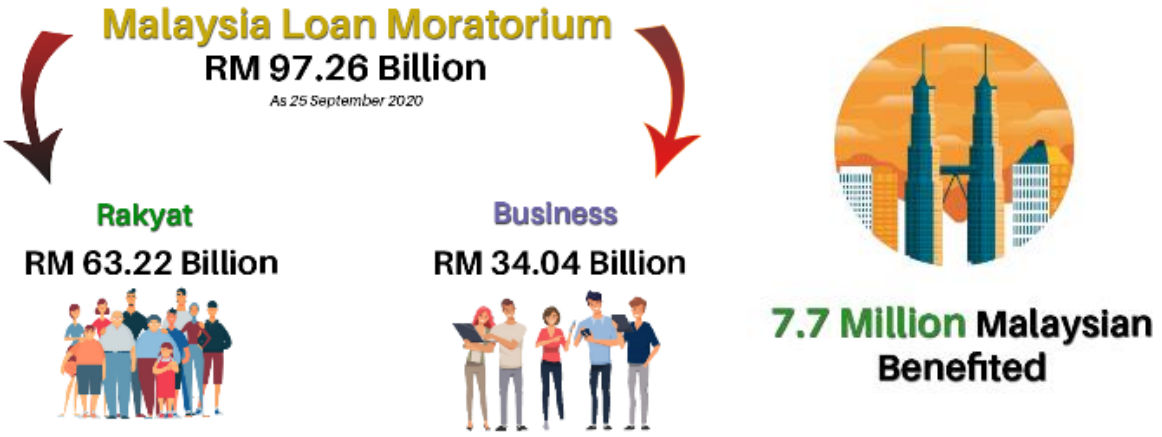
Professor of Economics at Sunway University Business School Dr Yeah Kim Leng warned that if the infections continues to spike, consumers will be hesitant to spend in this economy.

On top of that the number of impaired loans have also creeped up each month in the 4Q2020 which might affect banks' earnings if the government decides to provide another automatic blanket moratorium as it will make it hard for banks to provide future loans if they become more risk-averse.

Rise in Impaired Loans

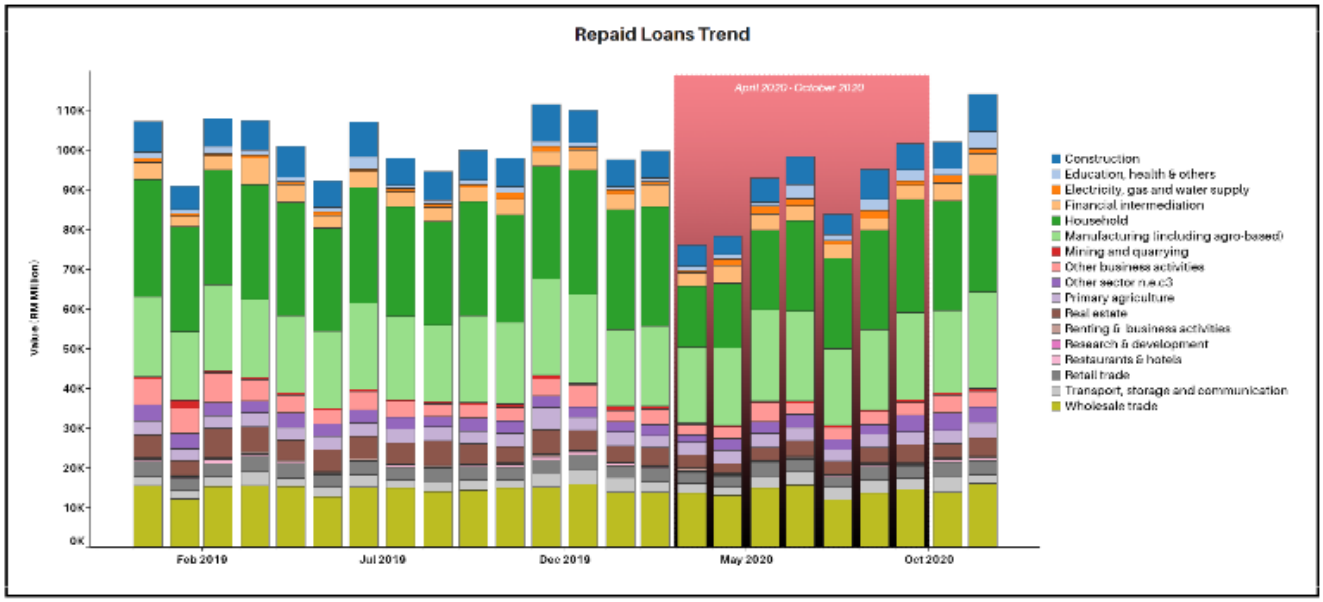
In order to curb the spread of the Covid-19 infections, Malaysia was the only country in the world to offer an automatic six-month loan moratorium effective from April 1, 2020 which will benefit individuals and SMEs during the MCO period if their loan funding meets the specified criteria. According to Moody's Investors Services, Malaysia offered the most extensive loan moratorium in South-East Asia covering approximately 80% of total loans.

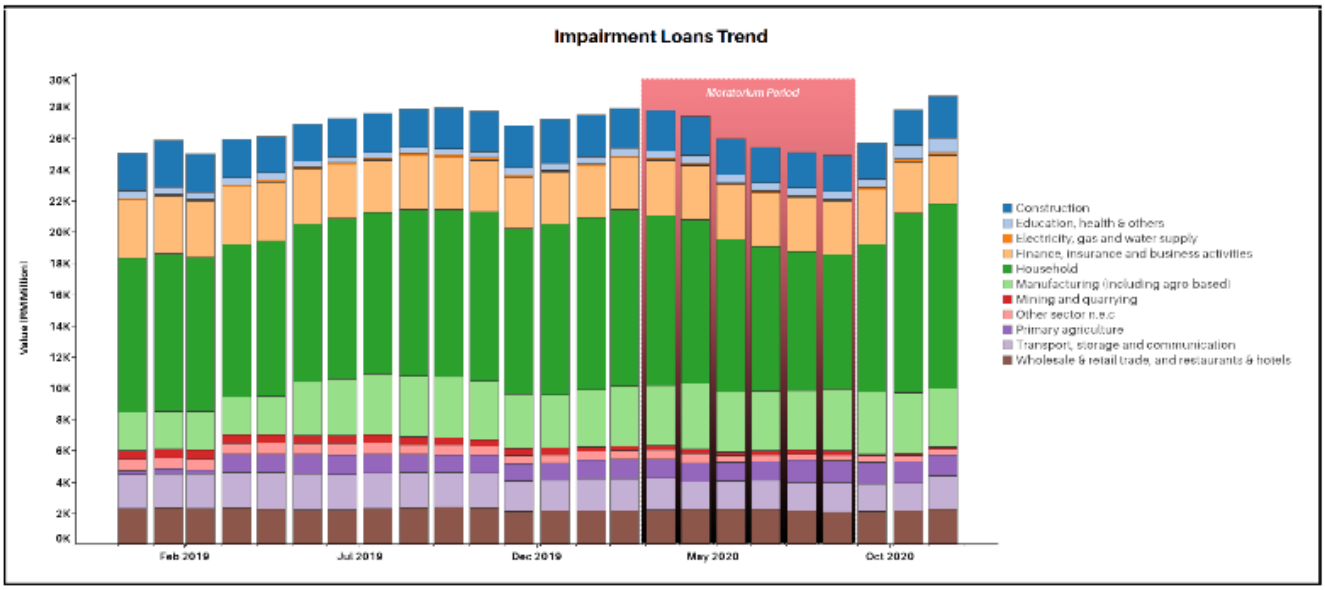
On top of that, Finance Ministers Zafrul Aziz stated in the Economic Stimulus Implementation and Coordination Unit Between National Agencies (LAKSANA) 24th Report that the business sectors used total of RM34.04 billion while RM63.22 billion was used by the Rakyat. Overall, more than 7.7 million Malaysians benefitted from the moratorium which comprises 93% of individual borrowers and 243,000 enterprises or 95% of small and medium-sized enterprises.



On September 30, 2020, the government's six-month blanket moratorium on all bank loans expired. During the moratorium period, the number of repaid loans dropped significantly in April and May but recovered later in June 2020. Nonetheless, the number of repaid loans declined again August, a month before the moratorium ended.

On top of that, the cases of impaired loans surged 3.6% in October after the moratorium expired and kept rising in the following months. With the increase in impaired loans, there will be a possibility that the loans will turn to Non-Performing Loan (NLP) if borrowers fail to commit to their repayments for the next three months.





Source : Central Bank of Malaysia Report - Monthly Highlights and Statistics in December 2020

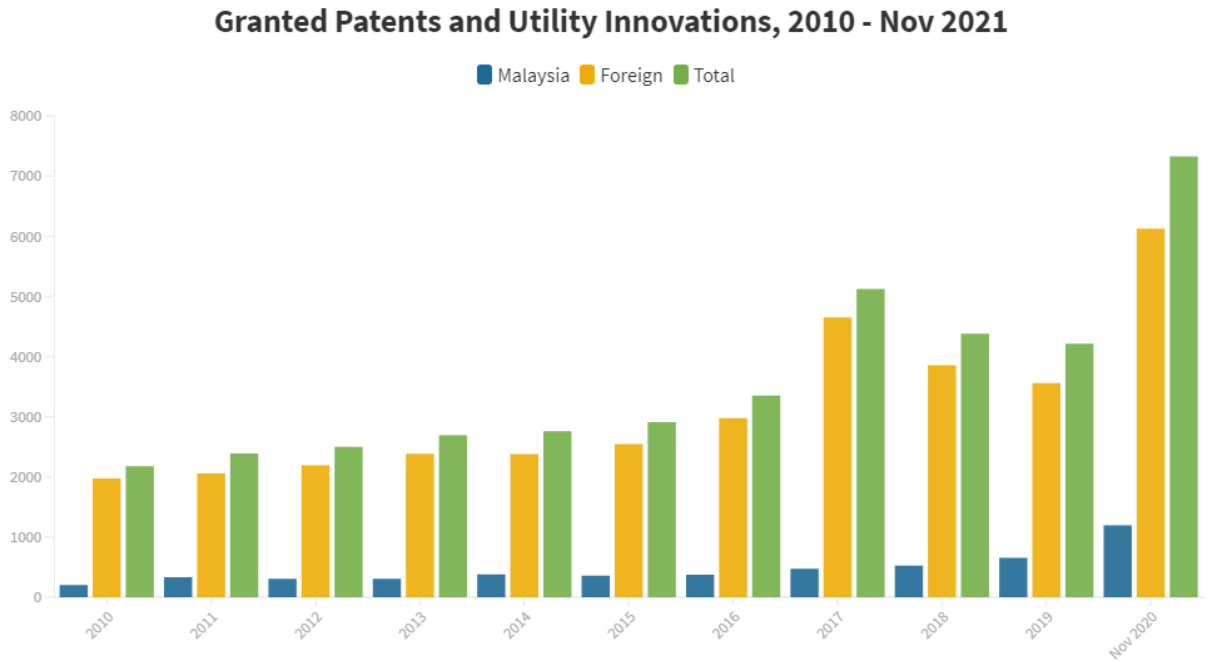
Business Growth

In terms of the business growth in Malaysia, the 68% plunge in FDI in 2020 is not something unexpected as Socio Economic Research Centre's executive director and senior economist Lee Heng Guie explained that the sharp contraction was due to the Covid-19 pandemic since other countries in the region are experiencing the same thing. However, he stated that the government needs to do more to attract higher FDI inflows.

Looking back to the FDI inflows in comparison to other countries in ASEAN, Malaysia has been underperforming where Philippines which previously recorded the lowest FDI is now attracting more foreign investors. Alliance Bank chief economist Manokaran Mottain stated that other countries in the region such as Myanmar, Cambodia and Indonesia are becoming more business-friendly as compared to Malaysia.

Thus, he emphasized that the lack of transparency, lengthy process in obtaining business licenses and high cost of compliance such as foreign workers levy are some of the reasons behind the decline in FDI. On top of that, Lee pointed out that the corporate tax in Malaysia of 24% is slightly higher than in Indonesian which recorded 22%.

Meanwhile, Ministry of International Trade and Industry's (MITI) weekly bulletin showed that the country's labour productivity per hour worked in 4Q2020 have decreased by 0.8% while total hours worked remained at -2.7%.



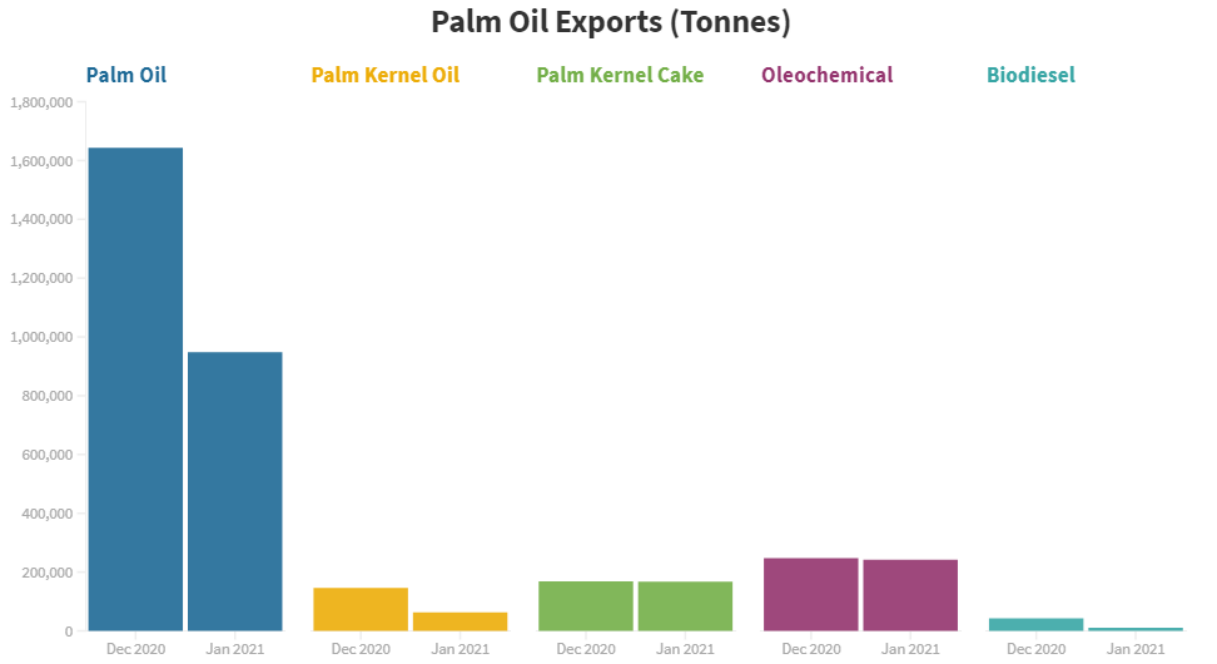
Source: Intellectual Property Corporation of Malaysia (MyIPO)

Structural Issue

Furthermore, the Malaysian Employers Federation (MEF) previously revealed that there are about 2.2 million documented foreign workers in Malaysia while undocumented foreign workers in Malaysia were almost 3.3 million in addition to 180,000 refugees. According to Yeah Kim Leng from Sunway University stated that Malaysia have become heavily dependent towards cheap foreign labour which deprives Malaysians of job opportunities and appropriate wages.

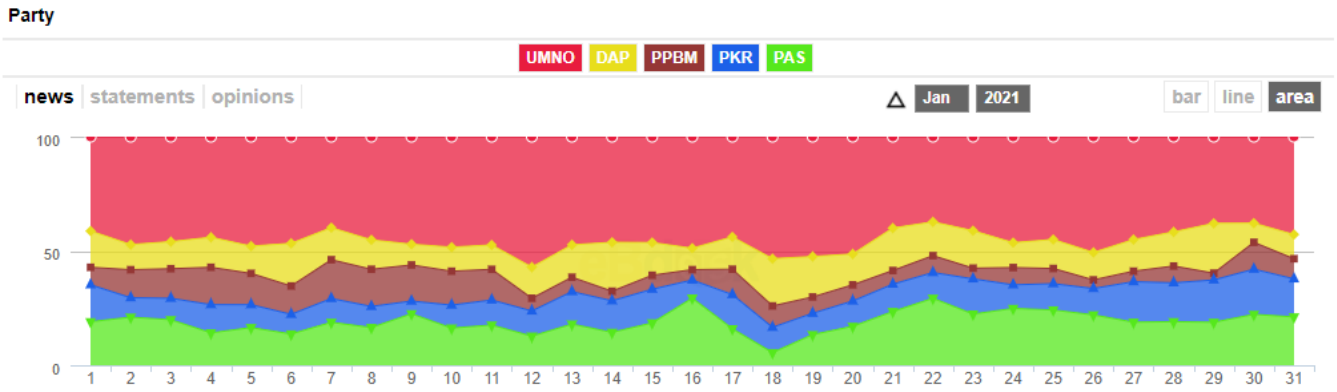
However, this has become a structural problem in Malaysia as the supply chain in the country's business ecosystem is not as diverse as other countries such as Japan where the business ecosystem goes up the supply chain.

On top of that, the downstream operations in Malaysia such as in the palm oil industry is still lacking as we emphasize more on exporting Crude Palm Oil (CPO) rather than exporting palm-oil based products or oleochemicals.



Source: Malaysian Palm Oil Board (MPOB)

CONCLUSION



The Malaysian economy is heavily affected by the Covid-19 pandemic especially with the reinforcement of MCO as people's livelihoods and businesses becomes restricted cause more job losses and business closures.

Although other countries are also experiencing the same impact form the pandemic, Malaysia recorded one of the lowest performance in terms of FDI which will effect future fiscal position if we continue to loose foreign investors.

To add salt to the wound, the political stability in Malaysia is still a bleak as many politicians are still grabbing for power which resulted in the King's decision to declare a state of emergency.

Nonetheless, with the rollout of the Covid-19 National Immunisation Programme, the Perikatan Nasional might be able to control the political situation in Malaysia as the economic recovery depends on the vaccination programme.

In general, the economy outlook for Malaysia is still worrying as the Covid-19 cases are continuously rising despite almost flattening the curve last year. If the rise in the spread of infections will prolong the restricted movement orders, this will strain more people's lives as they are not prepared to for another financial crisis.

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