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Wednesday, 11 March 2009
UOB Economic-Treasury Research
Company Reg No. 193500026Z

Malaysia Ramped Up Spending In Mini Budget

- Malaysia outlined details of its second fiscal stimulus on Tue which came in above market's expectation at RM60bn (9% of GDP) to be implemented over two years in 2009 and 2010. Malaysia's fiscal deficit is expected to surge to 7.6% of GDP in 2009 from government's earlier projection of 4.8% and a similar 4.8% in 2008. This will be one of the highest deficit-to-GDP ratios in Asia and will be financed mainly from domestic sources.
- Of this amount, RM15 billion is fiscal injection, RM25 billion Guarantee Funds, RM10 billion equity investments, RM7 billion private finance initiative (PFI) and off-budget projects, as well as RM3 billion in tax incentives.
- Besides the risk-sharing portion to increase credit access to companies, the focus was on the measure to encourage the re-hiring of retrenched workers. Employers enjoy double tax deduction on the amount of remuneration paid, up to RM10,000 per month when they hire workers retrenched from 1 July 2008.
- The Malaysian government also downgraded its GDP growth forecast to between -1% to 1% for this year from previous 3.5%. The forecast takes into account the new budget measures.
- The larger-than-expected fiscal stimulus package suggests that the government might move less on the monetary policy front from here. We are penning down a further 25bps cut to bring the OPR to 1.75% by end-2Q09.
- Given the weak growth prospects, the pressure on the MYR will likely remain on the downside, probably pushing lower to 3.75/USD within the next few weeks. However, we see a rebound in MYR towards 3.55/USD by the year-end on the assumption of the bottoming-out of the economy.

Malaysia outlined details of its second fiscal stimulus on Tue which came in above market's expectation at RM60bn (9% of GDP) to be implemented over two years in 2009 and 2010. The so-called 'mini budget' is misleading as it is significantly larger and more comprehensive than the RM7bn stimulus package announced in November. With the additional spending, Malaysia's fiscal deficit is expected to surge to 7.6% of GDP in 2009 from government's earlier projection of 4.8% and a similar 4.8% in 2008. This will be one of the highest deficit-to-GDP ratios in Asia and will be financed mainly from domestic sources.

The bulk of this amount or RM25 billion will be Guarantee Funds as the government shares risk of as much as 80% for loans to companies with shareholder equity less than RM20mn to provide working capital as well as encourage the increase in productivity and value-added activities. The government will also set up a Financial Guarantee Institution to provide credit enhancement to companies in order for them to access the bond market. Direct fiscal injection will cost another RM15 billion (RM10bn in 2009 and RM5bn in 2010) while RM10 billion has been allocated for equity investments, RM7 billion private finance initiative (PFI) and off-budget projects, as well as RM3 billion in tax incentives.

Besides the risk-sharing portion to increase credit access to companies, the highlights of the mini budget were the government's initiatives to create jobs, training opportunities as well as facilitate job placements through large-scale job fairs. Unemployment rate in the country is expected to rise to 4.5% this year from 3.7% in 2008. To encourage the re-hiring of retrenched workers, the government also announced double tax deduction on the amount of remuneration paid, up to RM10,000 per month when employers hire workers retrenched from 1 July 2008. This scheme will be valid with immediate effect to end-2010. As opposed to Singapore's Jobs Credit scheme which involves direct cash incentive to preserve jobs, Malaysia's target is to help retrenched workers find jobs and will be less helpful for companies that struggle to keep current employees. This could lead to tendency for higher jobs turnover in the country and the tax benefits will probably take longer to materialise compared with a direct cash incentive.

There are also other tax measures to boost company's cash flow, investment and the housing market. To help companies, the government will allow for carry back losses to the immediate preceding year and for investments, expenses on plant and machinery will be given Accelerated Capital Allowance. There will also be tax relief on interest paid on housing loans up to RM10,000 a year for 3 years.

Growth Forecast Downgraded

At the tabling of the second fiscal stimulus, the Malaysian government also downgraded its GDP growth forecast to between -1% to 1% for this year from previous 3.5%. The forecast takes into account the new budget measures. Nonetheless, we are keeping our forecast for the Malaysian economy to contract by 2.5% in 2009 as the weak momentum in global demand suggests that risk is still probably to the downside.

Implication on the Monetary Policy

The larger-than-expected fiscal stimulus package suggests that the government might move less on the monetary policy front from here. Since November last year, the BNM has cut its benchmark Overnight Policy Rate (OPR) by a cumulative 150bps to 2.0% and we expect there is limited room for the interest rate to be lowered much further from here. We are penning down a further 25bps cut to bring the OPR to 1.75% by end-2Q09. Comments from BNM governor Zeti that the central bank has front-loaded its interest rate cuts and that it is not constructive to keep interest rates low appear to be targeted at dampening rate cut expectation ahead.

On the currency front, the MYR has rebounded to 3.6840/USD after falling to 3.72 earlier this month. Given the weak growth prospects, the pressure on the MYR will likely remain on the downside, probably pushing lower to 3.75/USD within the next few weeks. However, we see a rebound in MYR towards 3.55/USD by the year-end on the assumption of the bottoming-out of the economy.

Budget Highlights

Reducing unemployment, increasing job opportunities:

- 163,000 training and job opportunities in both public and private sector. Training programmes to be implemented by government agencies, the private sector including GLCs and private training institutes.
- Six different training programmes have been identified.
- Establish 22 JobsMalaysia Centres and upgrade 109 existing ones to enable workers and employers obtain job placements, career counselling and information on training opportunities.
- Welfare of retrenched workers: Tax exempt for companies that employ workers who have been retrenched.
- Government to recruit 63,000 staff to fill vacancies and serve as contract officers.
- Opportunities for post graduate education with financial assistance
- PUNB to expand scope of PROSPER Programme
- Reducing dependence on foreign labour

Reducing the rakyat's burden and impact on the vulnerable:

- Government subsidy totals RM34.1 billion or 22 per cent of operating expenditure in 2008. Of this RM18.1 billion is for fuel subsidies, RM6 billion in the form of assistance for students, disabled and poor families. RM3 billion for food assistance and RM7 billion other forms of assistance.
- Government allocated RM674 million in subsidy to check price increases of essential food items, e.g bread, sugar and flour and another RM480 million to prevent a hike in toll rates.
- Government set aside RM27.9 billion in 2009 for various subsidies.
- Increasing home ownership by providing tax relief on interest paid on housing loans up to RM10,000 a year for 3 years.
- Improving public infrastructure – accelerate projects under Ninth Malaysia Plan, additional allocation of RM200 million to repair and maintain roads and drains, and undertake renovation and maintenance, repairs of welfare homes, fire and rescue stations and quarters, public toilets in mosques, surau and tourist spots.
- Enhancing and improving education facilities, including the national, Chinese, Tamil and mission schools
- Micro credit facilities for fishermen and farmers
- RM5 billion savings bond (syariah based) with 5 per cent return a year, payable every quarter. Minimum investment of RM5,000 an maximum of RM50,000.

Budget Highlights
Assisting private sector face the crisis: • RM5 billion fund for working capital guaranteed by government in the ratio of 80:20 – 80 per cent guaranteed by government and 20 per cent by financial institutions. • Fund to assist companies to restructure and promote green technology • Facilitating access to capital market. Bank Negara to establish a Financial Guarantee Institution to provide credit enhancement to companies that intend to raise funds from the bond market. • SC to reduce time-to-market and assist companies raise funds more efficiently and cost effectively. SC to introduce six different measures for this purpose. • Reducing the levy payment rate to the Human Resource Development Fund from 1.0% to 0.5% for all employees for a period of 2 years w.e.f 1 April 2009. • Attracting High Net Worth individuals and skilled individuals. • Support for the automotive and aviation industries and boost for tourism industry. • Accelerated Capital Allowance offered to encourage businesses to invest **Building capacity for future growth:** • Additional RM10 billion available to Khazanah for investments over a two year period in domestic industries with high multiplier and create more job opportunities. • Off budget projects valued at RM5 billion identified including LCCT at KLIA and Penang Airport expansion, High Speed broadband and covered walkway in golden triangle. • Private Finance Initiative (PFI): The government to assist implementation of projects through PFI and the public-private partnerships and provide the “tipping point” for private sector initiative. • Liberalising services sector to attract more investments, expertise and strengthen competitiveness of the sector which currently accounts for 55 per cent of GNP and has potential to increase contribution to 70 per cent as in developed nations. • FIC to adopt more liberal approach, nurture investor-friendly environment to attract more investments., including FIDs. Government working on new guidelines for FIC. • Strengthen and stress on “value for money” in government procurement. ePerolehan to be encouraged to enhance transparency in management of government procurement.
Source: Malaysia PM’s Office, Bloomberg