

# StarBiz Special

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# Surviving another lockdown

## ECONOMY

### Possibilities for further stimulus and interest rate cut emerge

By GANESHWARAN KANA  
ganeswaran@thestar.com.my

IT is round two of the movement control order (MCO) for Malaysia, and this time it came with the emergency twist to give the government the necessary powers to fix ongoing issues amid the Covid-19 outbreak.

While Malaysia is not alone in this, a number of other countries have also gone into re-imposing lockdowns with emergency laws being invoked (see sidebar), the question is, what is the impact on the capital market, corporate earnings and business in general?

In other words, how is this new lockdown different from the last MCO?

Under the previous MCO that began on March 18, 2020 and ran for 47 days, the national economy came to a virtual standstill. Borders were closed, domestic travels across states were crippled and most businesses were forced to shut down for weeks.

Exports suffered a double-digit slump in April and May last year and witnessed the worst contraction in 11 years after Malaysia's key trading partners shut their doors to contain their domestic Covid-19 outbreak.

Fast forward into 2021, the two-week MCO 2.0 effective Jan 13 is a more relaxed one than the previous round as the government realises how damaging a strict shutdown of the economy would be.

It is not implemented nationwide as only six states are under the MCO 2.0.

Another key difference is that the latest MCO comes with a state of emergency, although the government has assured that it will be business as usual with no curfew.

Economists have said that the MCO 2.0 would likely be less damaging to the ongoing economic recovery, given that 80% of the economic sectors are allowed to operate despite some limitations.

Nevertheless, this does not mean the MCO 2.0 would have zero effects on the economy.

Based on estimates by CGS-CIMB Research, each fortnight of MCO would shave a 0.7 percentage point



**Limited impact:** A man wearing a protective mask crosses a street in Kuala Lumpur. Economists say the MCO 2.0 would likely be less damaging to the ongoing economic recovery, given that 80% of the economic sectors are allowed to operate despite some limitations. — Reuters

from its 2021 gross domestic product forecast of 7.5%.

"We estimate the daily economic losses due to the second round of Malaysia's MCO effective Jan 13-26, 2021 at RM750mil, higher than the RM200mil incurred under the existing conditional MCO (CMCO) but significantly less painful than the RM2.4bil lost during the first MCO from March to May 2020," it says.

Speaking with *StarBizWeek*, Socio-Economic Research Centre (SERC) executive director Lee Heng Guie opines that the economic cost of not implementing an MCO would be even larger, with a long-lasting impact on the country.

"It is estimated that a two-week

MCO and CMCO will reduce GDP by 0.5 percentage points.

"If we assume a one-month MCO/CMCO, it will reduce our baseline estimate to 4% from 5% previously in 2021 (estimated -5.5% and -5.8% in 2020)," he says.

Within the business fraternity, retail and consumer-related sectors would be among those most affected by the movement restrictions.

Sectors such as banking and construction that have been benefiting from the market's recovery play may also see a slight delayed recovery in their earnings performance.

According to RHB Research Institute analyst Alexander Chia, an extended MCO will pose downside

risks to corporate earnings.

However, he urges investors not to lose sight of the light at the end of the tunnel.

"With the availability of the vaccine being a matter of time, we believe that positioning for a post-pandemic scenario should remain the key focus.

"Accordingly, market volatilities will present opportunities to reposition into cyclical and value stocks, with risk assets back-stopped by supportive monetary conditions and fiscal initiatives.

"Ample liquidity implies shallow market corrections while, conversely, investors' propensity to take profit on sharp rallies should

remain elevated."

Another analyst points out that while the MCO 2.0 will surely have adverse effects on business sentiment and earnings recovery after a tumultuous 2020, the extent of the impacts depends on whether the MCO is extended.

Prime Minister Tan Sri Muhyiddin Yassin has earlier hinted that there remains the possibility of MCO extending beyond Jan 26.

However, it is noteworthy that Health Ministry director-general Tan Sri Dr Noor Hisham Abdullah has said that it would take four to five weeks to flatten the Covid-19 infection curve.

Bursa Malaysia, on its part, says it remains committed to assisting domestic capital market participants in weathering through the current challenging times.

"Given the ongoing effects and impact of the Covid-19 pandemic and the MCOs (of varying degrees) imposed by the government including the recent MCO 2.0, we will continue to monitor the market closely and work with our stakeholders to determine and identify other areas where we can provide support, as well as give guidance and further relief where needed," it tells *StarBizWeek* in an e-mail reply.

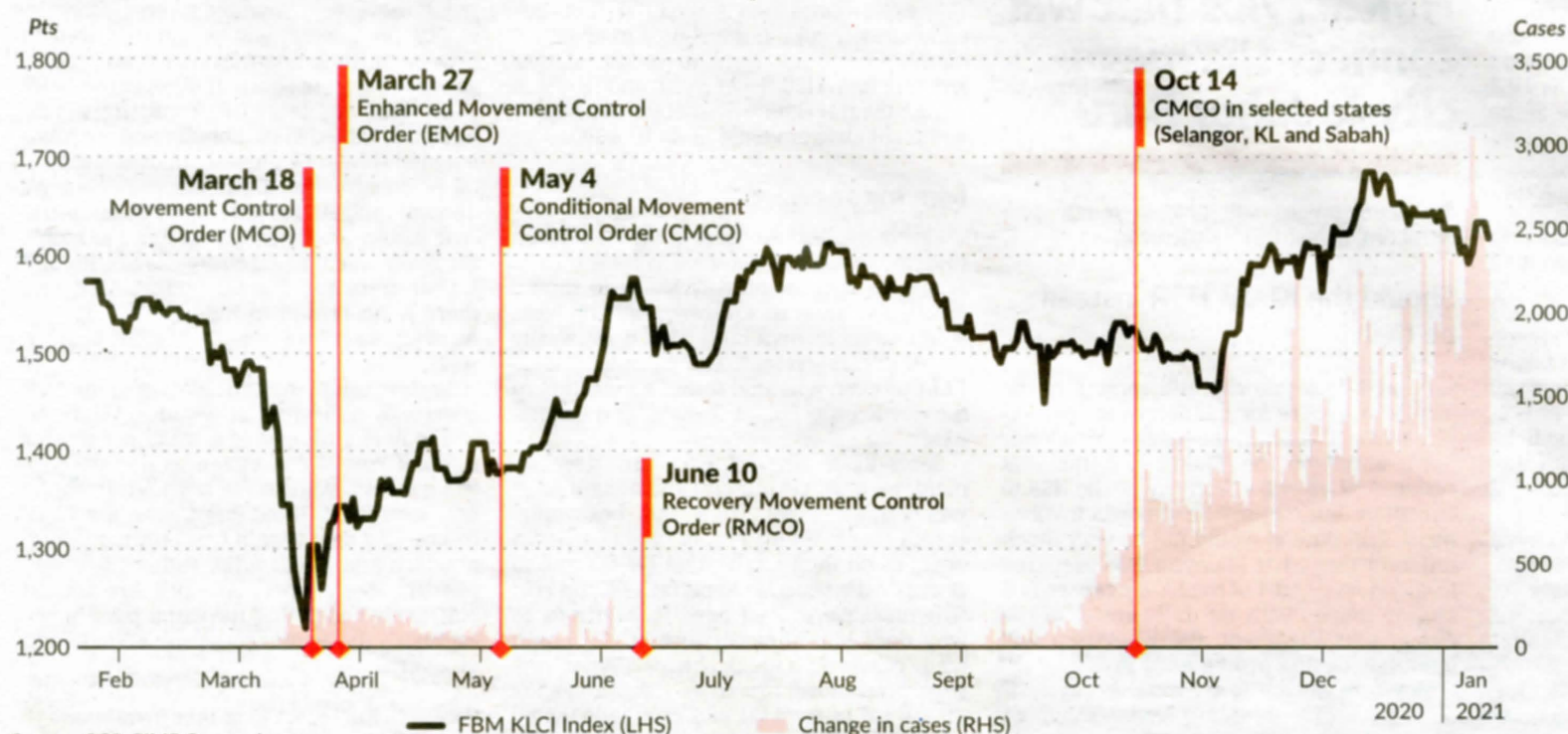
However, the regulator stopped short of saying what type of relief that it may extend, moving forward.

In the aftermath of the previous MCO which resulted in the FBM KLCI falling to its lowest level in a decade, Bursa Malaysia introduced a number of relief measures to urgently address market needs.

Among others, it granted an extension of time for listed issuers to submit their financial statements, accorded flexibility in capital raising, and provided relief to financially distressed listed issuers and those that do not have an adequate level of operations.

Bursa Malaysia has also temporarily suspended short-selling activities to calm the equity market. However,

### Covid-19 cases vs FBM KLCI Index vs MCO implementations



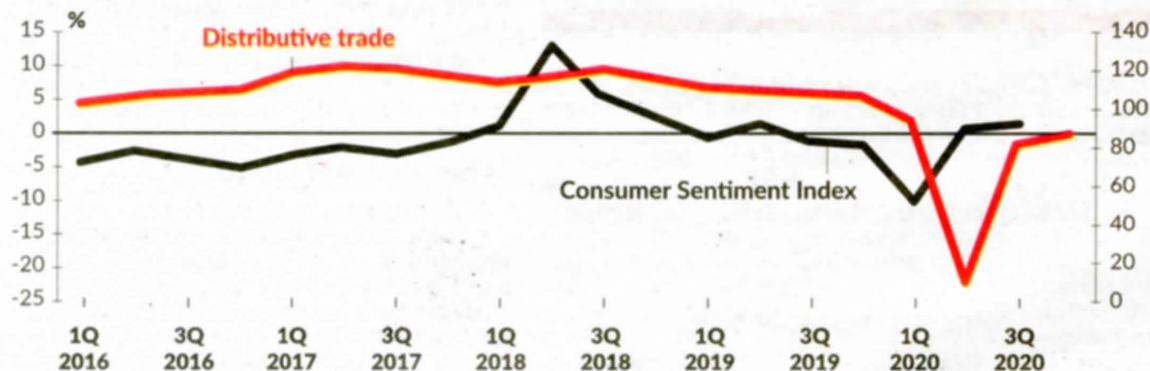
Source: CGS-CIMB Research

## Impact of past emergency declaration on markets in neighbouring countries

Country	Date of declaration of emergency	Index	1 day after	1 week after	1 month after	3 months after
Thailand	March 26, 2020	SET index	1%	4%	16%	21%
Indonesia	March 31, 2020	JCI index	(2%)	5%	4%	8%
Philippines	Sept 3, 2020	PCOMP index	0%	(15%)	(13%)	3%

Source: CGS-CIMB Research

## Distributive trade (year-on-year % change) vs Consumer Sentiment Index



Source: MIDF Research

TheStar graphics

effective Jan 1, the suspension was partially lifted with regulated short selling allowed to resume.

### More stimulus needed?

There have been calls for the government to consider introducing additional stimulus measures to support the economy and private consumption.

In 2020, Covid-19 fears and the relevant containment measures have stifled domestic demand as consumers reduced spending and tightened their purse string due to uncertainty over the near future.

Weakness in the labour market as companies intensified retrenchments further affected private consumption.

That had a telling effect as private consumption contributed 80% of the GDP growth from 2015 to 2019.

MIDF Research sees the decline in private consumption to have bottomed out in the second quarter of 2020.

Nevertheless, it thinks that consumption will only recover gradually, supported by low inflationary pressure, interest rate cuts and the economic stimulus package, particularly through rakyat-centric measures.

"This is due to the recent resurgence of new clusters of Covid-19, which limit the rakyat's outside activities. Spending, especially on non-essential items, will take longer than expected to fully recover.

"The services sector, particularly involving hotels and aviation, will continue to be pressured by the internal border closure," according to the research house.

AmBank Group chief economist Anthony Dass urges the government to ensure that Covid-19-related standard operating procedures do not impede households from spending.

"The creation of demand is vital for business and industries to survive," he says.

Commenting on the impact of the MCO 2.0 on the labour market, Dass who is also a member of the Economic Action Council secretariat, says the MCO 2.0 and further extensions will likely hurt workers in the informal sector and those who cannot work from home.

"This would mean that unemployment as surveyed by the Statistics Department could inch up slightly. But what could happen is that there is risk of more people staying out of the job and doing all kinds of odd jobs for survival.

"Risk of this segment increasing cannot be ruled out. More so, if firms

increasingly move towards automation and digitalisation," he says.

Dass believes the possibilities for more stimulus measures could emerge should the virus spread continue globally, with vaccinations only becoming more extensive in the second half of the year.

Meanwhile, SERC's Lee also thinks that the government should consider introducing new measures to support the economy.

"Some form of one-off financial aid for small traders and micro businesses, more compassionate support from banks in loan repayment assistance, rental relief and electricity discount (could be considered).

"The municipal councils should consider waiving quit rent and assessment tax for the first half of 2021," he says.

In addition, Lee says the focus should also be on spending the RM322.5bil allocated under Budget 2021 effectively, with funds disbursed timely especially for the states hit by massive floods.

On the monetary policy front, he believes that Bank Negara may consider cutting its overnight policy rate (OPR) by additional 25 basis points to 1.50% to provide "some insurance against sentiment risk".

"When economic times are challenging amid the worsening Covid-19 situation, people worry about the health risk and losing their jobs, and grow wary about spending money. The reduced spending means less money circulation in the system.

"But the easy monetary policy (low interest rates and borrowing cost) and ongoing cash assistance for targeted households, targeted loan repayment assistance and EPF withdrawal facility are expected to ease cash flow and aid discretionary consumption and spending," he says.

OCBC Bank economist Wellian Wiranto also believes that Malaysia would continue to have to lean more heavily on monetary support.

"With its recovery momentum stymied, it will be even harder now for the economy to reach the 6.5%-7.5% GDP growth target that the government has in mind, making it tough to envision any grand fiscal largesse to counter the blow, even as the declaration of state of emergency gives it some wiggle room.

"Bank Negara is likely to cut its OPR once more on Jan 20," according to Wellian.

While a further cut in OPR remains plausible, chances are that the government may refrain from announcing new fiscal support packages.

With the federal government's budget deficit level forecast at 5.4% of GDP this year, economists agree that the fiscal space is limited, hence reducing the government's ability to spend including through borrowings.

### The emergency dilemma

The state of emergency, which will take effect until Aug 1, is not expected to adversely impact the country's ongoing economic recovery.

Notwithstanding that, there are concerns that foreign investor sentiment on Malaysia as a viable and stable investment destination may be dampened.

An official proclamation of emergency by the King on Jan 12 had initially caused uncertainties in the stock market, causing the FBM KLCI to fall by about 27 points to an intraday low of 1,590.71 points.

However, a televised speech of Prime Minister Tan Sri Muhyiddin Yassin by 11am on the same day, in which he assured investors that the country remains open for business, has calmed the market.

By 5pm, the FBM KLCI closed near its opening level at 1,612.04 points.

Contrary to concerns, Bursa Malaysia points out that foreign participation has been encouraging following the announcement, registering a 27% increase in participation compared to the 2020 average.

"This week (ended Jan 15), foreign investors have continuously ended in a net buy position. This highlights that our market has ample liquidity, with investors looking towards buying opportunities.

"At Bursa Malaysia, we remain committed to ensure trading is not disrupted, which should serve as a positive assurance for market entry and participation.

"The MCO or emergency is likely to contribute to market volatility, and investors could see this as an opportunity," it says.

Meanwhile, SERC's Lee urges the government to enforce the state of emergency in a transparent manner.

"It must be well communicated to instill confidence and ease investors' uncertainty.

"More importantly, it must be lifted when the emergency decree has served its purpose as a protracted emergency period would undermine private investment prospects," he says.

Watch the video  
TheStarTV.com

