

# Coronavirus: Impact on Malaysia's Economy

May impact VMY2020, the services sector, and fiscal balance sheet

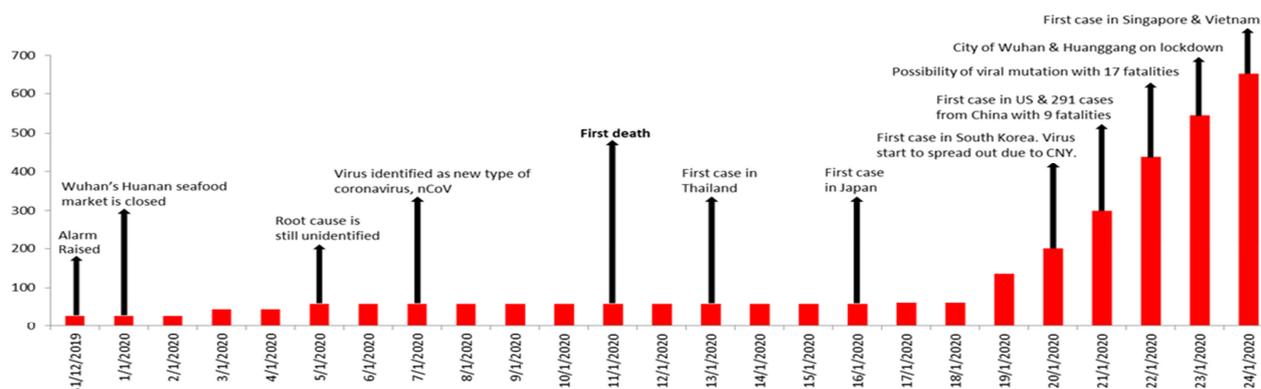
## Summary

- After 24 days, 18 reported deaths and 653 known/reported cases, the World Health Organisation (WHO) has yet to declare the Wuhan pneumonia outbreak, or scientifically termed as novel coronavirus (nCoV), a global emergency despite the spread of the dangerous respiratory infection from China to at least nine other countries.
- The main concern is that nCoV resembles the SARS virus, originated from Guangdong Province which saw a total of 5,327 reported cases and 349 reported deaths in China in a span of nine months (Nov-2002 to Jul-2003).
- The immediate concern is that the virus may spread fast helped by the heightened travelling activities during the Lunar New Year, as the SARS did in 2003. Already China imposed travelling curbs on Wuhan and seven other cities.
- Even if nCoV has yet to spread to Malaysia, the impact on tourist arrivals from China and elsewhere would be enough to affect the Visit Malaysia Year campaign and to a certain extent the economy at least in the 1H2020.
- Like in 2003, we expect the Malaysian government may take pre-emptive fiscal and monetary measures to support the tourism as well as the retail and transport sectors. This would risk wider fiscal deficit and higher debt ratio to GDP.
- Barring a full-blown epidemic or death toll increase at an alarming rate, we are maintaining our GDP forecast of 4.3% for this year (official 2020F: 4.8%).

## Introduction

- Chinese authorities raised the alarm on Wuhan pneumonia outbreak to WHO on Dec 31, 2019, after 27 cases have been discovered in China's Wuhan City.
  - The number of cases increased to a total of 653, as of Jan 24, with 18 deaths reported. About a quarter of the people infected had become severely ill, but most others had milder symptoms. Most who died had underlying health problems, and many were older than 60.
  - The virus has spread out to at least nine countries, including Thailand, Japan, Korea, Hong Kong, Taiwan, Macau, Singapore, Vietnam and the US.
  - On Jan 9, WHO said that the virus that caused the outbreak in Wuhan was identified as a new type of coronavirus specifically the nCoV. Of note, other types of coronavirus include SARS and MERS.
  - The Chinese government has imposed a travel lockdown in Wuhan and seven other cities.
  - On Jan 24, WHO decided not to declare nCoV a global emergency, citing the number of cases in other countries is still relatively small, and the disease does not seem to be spreading within those countries.
- Given the acceleration in the pace of spreading of the virus, especially due to heightened travelling activities during the Lunar New Year holidays, we foresee elevated level of worries among the consumers, potentially resulting in some adverse spillover to the economy.

Graph 1: Number of nCoV Cases



Source: Kenanga Research

Recap on 2003 SARS

- The current nCoV outbreak resembles the SARS epidemic which began back in mid-November 2002 until July 2003, originating from Guangdong Province in China, resulting in a cumulative total of 5,327 probable cases, with 349 deaths, reported in China.
  - Southeast Asian countries were on high alert after the virus spread to Vietnam, Singapore and Philippines at the end of February, to Thailand in mid-March and eventually to Malaysia just a few days after.
  - Malaysia case-fatality ratio registered at 40% at the end of the outbreak.
- The SARS outbreak seeped into the economy mainly through the confidence and demand channels, with the adverse impact materialising in the late March, lasting until end-May, after which it gradually abated. Of note, the implication was limited by nature, primarily affecting the services sector.
  - GDP growth (2Q03: 4.6%; 1Q03: 5.9%): the economy expanded at a softer pace, registering at a six-quarter low, purely due to the services sector, specifically a sharp fall in the wholesale & retail trade and hotels & restaurant sub-sector.
  - Tourist arrivals (2Q03: 1.7m; 1Q03: 2.9m): tourism activities tapered, with tourist arrivals charted a downtrend for two straight quarters (i.e. 3Q03 - 2Q03). Of note, tourist arrivals from China edged down by 0.3m persons in 2003, with its share to overall tourist arrival decreased to 4.0% (2002: 5.1%) and remained on a downtrend up until 2005 (2.6%).
  - Retail sales (2Q03: -2.2%; 1Q03: 2.0%): hampered sentiments among consumers coupled with lower number of tourists amid growing health concerns had weighed on retail sales performance and imports of food, beverages and consumer goods.
  - Currency: There was no clear movement in Renminbi and Ringgit as it was pegged to USD. Thus the impact of SARS on currency was unclear.
  - Impact on the financial market:
    - Shanghai stock market dropped 12.01% during SARS outbreak (mid-November 2002). It plunged again by 110.96 points in mid of December 2002, triggered by fears of possible pandemic.
    - FBM KLCI dropped by 42.19 points after the outbreak at Guangdong due to mounting fears over possible virus spreading to Malaysia.
    - When the virus actually spread to Malaysia in mid of March 2003, FBM KLCI dipped 4.62% and stood at 619.22 points.

Table 1: SARS Cases Resulting in Deaths

Country	No. of Cases	No. of Deaths	Date (First-Last case)
CN	5327	349	16-Nov-02 – 03-Jun-03
HK	1755	299	15-Feb-03 – 31-May-03
TW	346	37	25-Feb-03 – 15-Jun-03
CA	251	43	23-Feb-03 - 12-Jun-03
SG	238	33	25-Feb-03 – 05-May-03
VN	63	5	23-Feb-03 – 14-Apr-03
PH	14	2	25-Feb-03 – 05-May-03
TH	9	2	11-Mar-03 – 27-May-03
FR	7	1	21-Mar-03 – 03-May-03
<b>MY</b>	<b>5</b>	<b>2</b>	<b>14-Mar-03 – 22-Apr-03</b>
ZA	1	1	3-Apr-03 – 3-Apr-03
<b>Total</b>	<b>8016</b>	<b>774</b>	

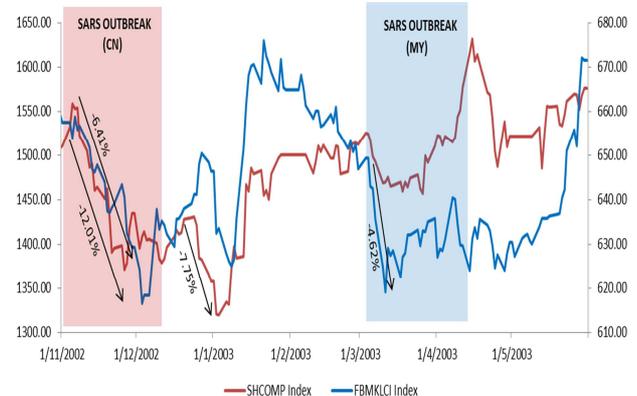
Source: WHO

Graph 2: Tourist Arrivals from China



Source: Tourism Malaysia, Kenanga Research

Graph 3: KLCI & SSE Composite Index



Source: Bloomberg, Kenanga Research

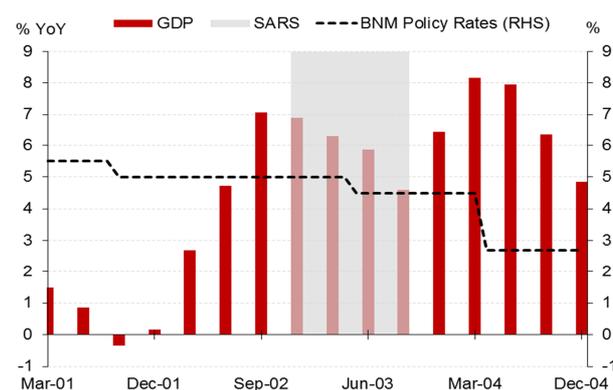
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**Graph 4: Impact on Key Economic Indicators at the Height of SARS Epidemic Outbreak (1Q03 to 3Q03)**

Note: GDP figures are based on 2000 prices  
Source: DoS, BNM

- Several policy measures were taken to prop up growth amidst the elevated uncertainty arising from the SARS epidemic, on top of the global economic slowdown and Middle East tensions during that time.

- **Economic package:** On 21<sup>st</sup> May 2003, the government announced a RM7.3b (2.0% of GDP) stimulus package encompassed of 90 measures designed to provide immediate relief to affected sectors, lift up consumer sentiments and ultimately accelerate economic activities.
- **Monetary easing:** On the same day and with an objective of reinforcing the government measures, the BNM slashed its 3-month Intervention Rate by 50 basis points to 4.5%. This was the first reduction in 20 months.

**Graph 5: GDP Growth and BNM Policy Rate Trend**

Source: BNM, CEIC, Kenanga Research

**Table 2: Government Economic Package Measures for the Services Sector**

Beneficiaries	Measures	Effective Date
Tourism related sectors	– RM1b Special Relief Guarantee Facility	21 May 2003
Hotel operators	– 5% discount on electricity bills	1 June – 31 Dec 2003
	– Exemption of 5% government tax and Human Resource Development Fund (HRDF) levy	
	– Exemption of import duty and sales tax on tele- and video-conferencing equipment	
Travel agencies	– Suspension of income tax installment payments – Exemption of HRDF levy	1 June – 31 Dec 2003
Taxis	– One time reduction in road tax of 50%	Valid for 6 months
Retail, transport and other services	– Reduction of employees' EPF contribution by 2 ppt	One year from 1 June 2003
Operators of duty free shops in Malaysian airports	– 50% cut in rental rates for Malaysia Airport Holdings Bhd. premises	1 June – 31 Dec 2003

Source: BNM

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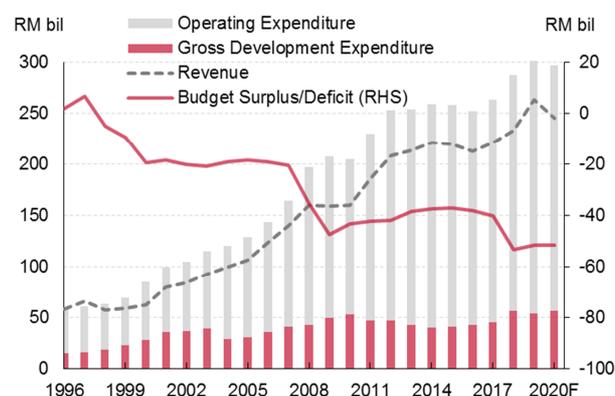
**Table 3: Regional Government's Measures to Tackle the SARS Epidemic in 2003**

Countries	Measures	Effective Date
Singapore	A SGD230m (USD129.3m) relief package (0.2% of GDP) focused on providing immediate relief to the most directly and adversely affected sectors, namely, the tourism and transport-related sectors. Allocations/concessions to the tourism and transport-related sectors accounted for 67% and 32% of the economic package. Key measures include tax rebates/reductions, interest rate subsidy, expenditure for training grants and fee rebates/waivers.	17 Apr 2003
P.R. China	Funds amounting to about RMB6.3b (USD763m) were targeted at improving the public health infrastructure, particularly in SARS affected regions. Other measures taken by both the central and local governments include waivers/reductions of several tax rates and administrative fees for SARS affected industries. Tax breaks in Guangdong, amounting to RMB900m (USD109m) effective in August 2003.	20 Apr - 12 May 2003
Hong Kong	A HKD11.8b (USD1.5b) economic package (1% of GDP) funded by Hong Kong's fiscal reserves (currently at more than HKD320b). Key measures include government guarantee for loans, waivers on utility charges and license fees, reduction in public housing rentals, rebates to taxpayers, creation of temporary jobs and allocations for medical research and publicity campaigns.	23 Apr 2003
ASEAN + China	ASEAN and China set up a Special SARS Fund at a meeting on SARS in Bangkok. The fund for SARS research and study was launched with Thailand's pledge of THB10m (USD0.23m), RMB10m (USD1.2m) from China and USD0.1m from Cambodia.	29 Apr 2003
Taiwan	A TWD50b (USD1.4b) special fund to help industries affected by SARS was approved	2 May 2003

Source: BNM

### Scenario Analysis – Impact on Growth and Fiscal Balance Sheet

- Based on the 2003 SARS experience, the post assessment stipulates that the domestic economy was not able to fully thwart the impact of the epidemic as policy action was taken slightly late in the 2Q03. Nevertheless, we expect the authorities may be more proactive this time around and take necessary measures to support the economy before the nCoV outbreak would weigh on the domestic demand.
- On monetary policy stance, we believe BNM has more room to lean towards monetary easing.
  - The house expects BNM to cut the overnight policy rate (OPR) by another 25bps to 2.50% probably at next Monetary Policy Committee meeting in March or in 2Q20. It recently cut the OPR by 25bps, citing pre-emptive measure to sustain growth trajectory.
  - We would also expect the central bank to introduce Special Relief Guarantee Fund for working capital to the affected companies during the outbreak.
- On the fiscal side, we reckon the government may want to impose similar measures it did back in 2003 as it has proven to be rather effective and the effect is almost immediate.
  - The measures would mainly be rebates on utility bills, as well as reduction in the rate of taxes for hotels, restaurants, and taxis, typically those that are related to the tourism services sector.
  - This means that it would be rather challenging for the federal government to maintain its fiscal deficit target of 3.2% of GDP in 2020, from an estimated 3.4% of GDP in 2019 (2018: 3.7%).

**Graph 6: Federal Government Finances**

Source: MoF, Kenanga Research



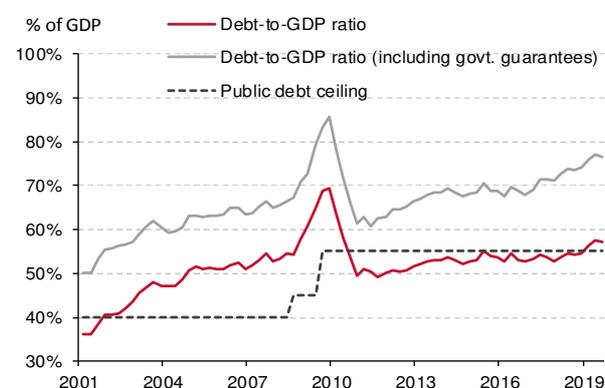
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- A special stimulus package of sorts would mean the federal government may need to come up with an extra allocation of about RM5.0b to RM10.0b, adding to the current government deficit forecast of RM51.7b for 2020.

- Assuming no change to the fiscal revenue and expenditure growth, the fiscal deficit may widen to at least 3.5% of GDP in 2020 based on official nominal GDP forecast of RM1.6t for this year (official real GDP growth target of 4.8%).
- Given that growth of revenue this year is projected to contract by 7.1%, the deficit would need to be largely financed by debt. This would risk raising the government debt to GDP ratio further. Based on the official figure, the government debt reached a record RM804.8b or an estimated 57.2% of GDP as at end of September 2019, slightly above its 55% self-imposed debt ceiling.

- On the impact to the overall economy, we would assume the measures expected to be taken by the government would help to soften the adverse spillover from nCoV. Barring a full-blown epidemic and death toll increase at an alarming rate, we are maintaining our GDP forecast of 4.3% for this year (official 2020: 4.8%).

Graph 7: Federal Government Debt



Source: MoF, CEIC, Kenanga Research

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Published and printed by:

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