Malaysia – Less of an economic hit from MCO 2.0

- **Malaysia re-imposes MCO in five states and three federal territories for at least two weeks**
- **Impact of MCO 2.0 on GDP growth is likely to be lower than during MCO 1.0**
- **BNM may continue to wait and see, but the risk of another cut has risen**

Edward Lee
+65 6596 8252
Lee.Wee-Kok@sc.com
Chief Economist, ASEAN and South Asia
Standard Chartered Bank (Singapore) Limited

Jonathan Koh
+65 6596 8075
Jonathan.Koh@sc.com
Economist, Asia
Standard Chartered Bank (Singapore) Limited

MCO re-imposed as COVID-19 infections surge

Malaysian Prime Minister Muhyiddin Yassin announced on 11 January that the Movement Control Order (MCO, most stringent restriction locally) will be re-imposed in five states and three federal territories[1] (FTs) due to the worsening COVID-19 situation. A resurgence of infections (Figure 1) has brought the country's health care system to its breaking point, he added. These states and FTs account for c.66% of GDP and 66% of Malaysia's manufacturing GDP. Meanwhile, six states were placed under a less stringent Conditional MCO (CMCO) and two were placed under the least stringent Recovery MCO. The MCO and CMCO will be in place for at least two weeks from 13-26 January. Malaysia also announced a State of Emergency (SoE) on 12 January, which will last until 1 August 2021.

We estimate (using Q2-2020 GDP data) that a one-month nationwide MCO may subtract 1-1.5ppt from 2021 GDP growth (assuming the impact is 50% less than the first MCO given a better ability to cope with pandemic restrictions). This poses downside risk to our 2021 GDP growth forecast of 7.5%.

The impact may be even lower due to the following factors (Figure 2). First, MCO 2.0 appears to be less restrictive, with five sectors – manufacturing, construction, services (the government may provide more details here), trade and distribution, and plantation and commodities – deemed essential and allowed to operate. Further, it has not been applied nationwide.

Second, the world is not in a synchronised lockdown this time around, with better demand and supply factors versus H1-2020. For example, Malaysia's exports to China contracted in Q1-2020, while China's growth is normalising in Q1-2021. Third, established Standard Operating Procedures (SOPs), work-from-home (WFH) solutions and improved online logistics should mitigate the impact of the MCO. For example, the CMCO re-imposition in Q4-2020 did not significantly impact manufacturing, despite the decline in transit activity (Figures 3-4).

Fourth, stimulus measures have already been implemented and remain largely in place (albeit with fading effects). Budget 2021 already has MYR 17bn allocated to the COVID fund. In addition, early withdrawals from the national pension fund will help support consumption. The national pension fund recently said that MYR 19.6bn was allowed to be withdrawn; we think this amount could rise. Assuming that 80% of the MYR 19.6bn is spent, this translates to c.1% of GDP.

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[1] The 5 states are Penang, Selangor, Melaka, Johor, Sabah. The 3 FTs are Kuala Lumpur, Putrajaya and Labuan

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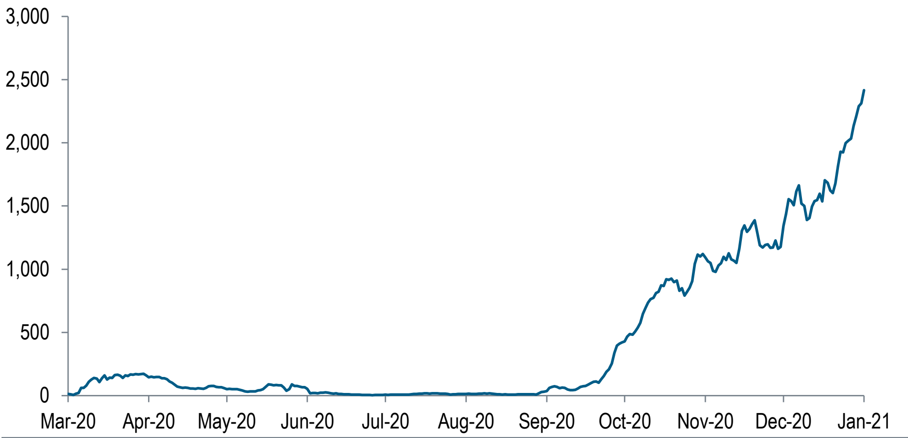
Last, and most importantly, the promise of a vaccine should help limit the downside to confidence. Globally, vaccinations have started, with major economies already securing enough doses to vaccinate their entire population. Malaysia has set aside MYR 3bn for vaccine purchases and has so far secured enough doses to vaccinate c.60%% of its population; it is in negotiations for the remaining 40% (Figure 5). Vaccinations are estimated to start in February 2021, with the rollout of the first 12.8mn doses of the Pfizer-BioNTech vaccine. Businesses are more likely to be willing to withstand the current headwinds in anticipation of a more benign health environment in H2-2021.

We think Bank Negara Malaysia (BNM) may continue to wait and see, given its firmly neutral stance. We had previously called for a pre-emptive cut in November, partly due to the worsening pandemic situation domestically; however, BNM appeared reluctant to cut further, sounding confident on the growth recovery, despite the resurgence of infections and accompanying restrictions. In addition, the governor noted that debt-fuelled growth may not be sustainable and that the focus should shift to structural policies. That said, the risk of another rate cut has increased given the worsening pandemic situation domestically.

Figure 1: Resurgence of COVID-19 infections since October 2020 is worse than in March-April 2020 *(daily new cases, 7DMA)*



Source: CEIC, Standard Chartered Research

Figure 2: Impact of MCO 2.0 on the economy is likely to be lower than in March-May 2020

Essential factor estimates by sector; 1.0 = full capacity

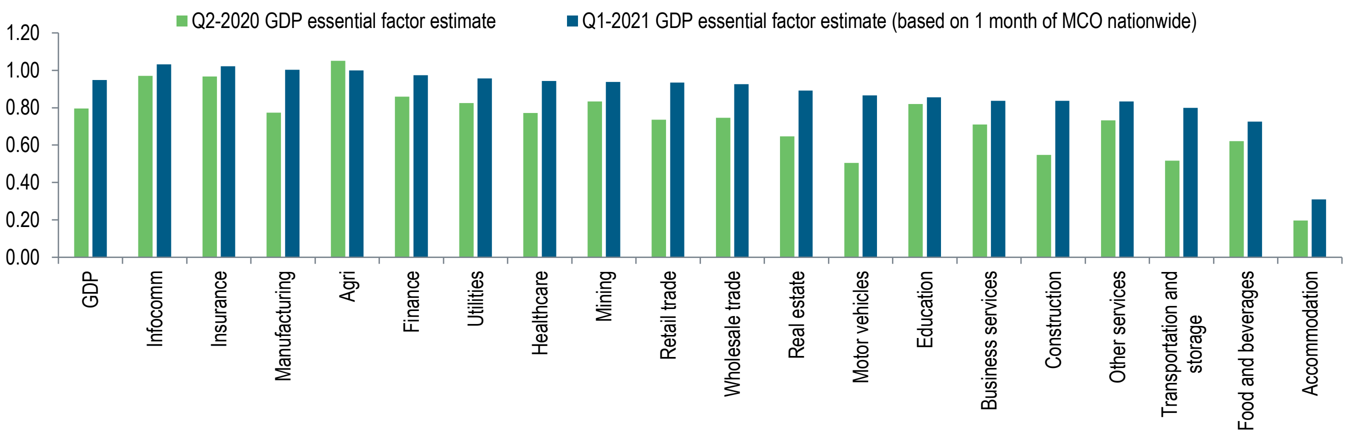


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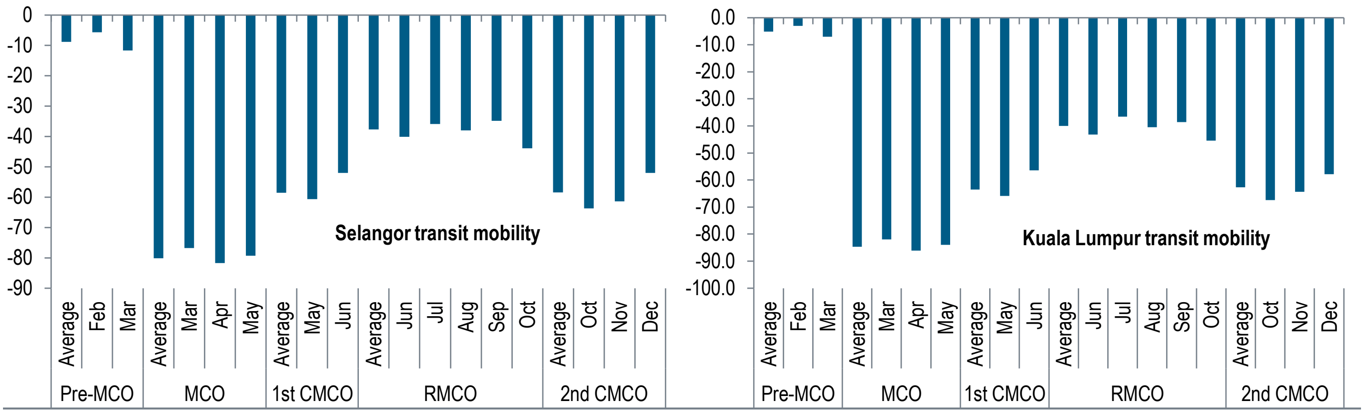
Figure 3: Second round of CMCO measures resulted in a similar drop in mobility as the first round…

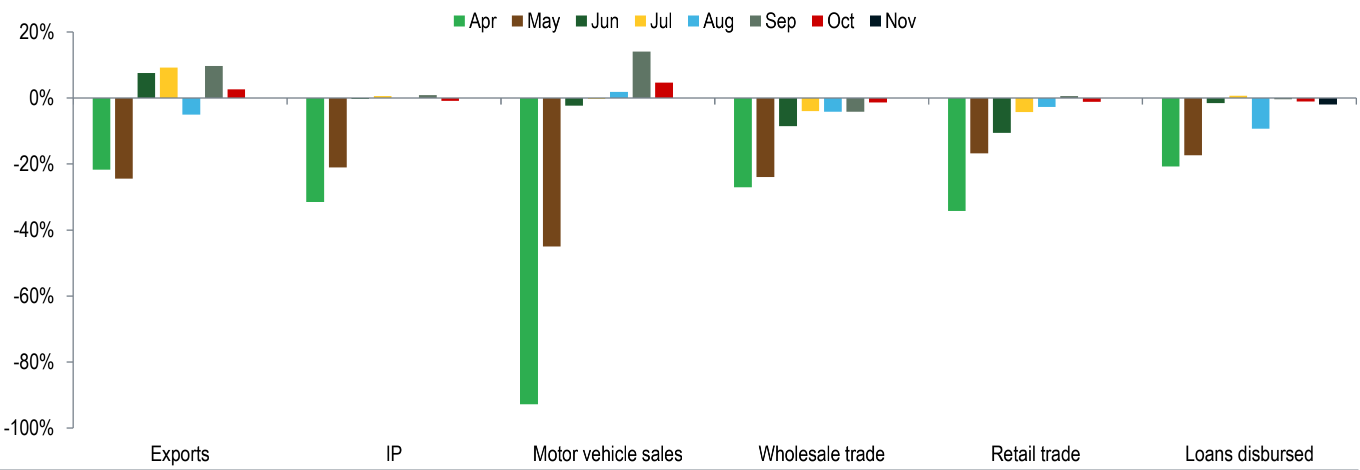
% deviation from baseline



*The baseline is the median value, for the corresponding day of the week, during the 5-week period 3 Jan-6 Feb 2020 Source: Google mobility data, Standard Chartered Research

Figure 4: … although economic activity slowed less sharply versus the first round

% deviation from Q4-2019 levels, seasonally adjusted



Source: CEIC, Standard Chartered Research

Figure 5: Malaysia has secured vaccines for c.60% of its population and is in final negotiations for remaining 40%

Population	Vaccination goal (% of population)	Funds	Vaccine deals: Vaccine	Vaccine deals: Doses secured	Vaccine deals: Population to be vaccinated based on doses secured (%)	Estimated start date	Cost of vaccine to population
33mn	80% (26.5mn)	MYR 3bn	Pfizer-BioNTech	25mn	40%	February 2021	Free for Malaysians
			AstraZeneca (Direct)	6.4mn	10%		
			AstraZeneca (Covax)	6.4mn	10%		
			Sinovac	14mn (final negotiations)	20%		
			CanSino Biologics	3.5mn (final negotiations)	10%		
			Sputnik V	6.4mn (final negotiations)	10%		

Source: Bloomberg, Local media, Standard Chartered Research

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Senior Economist, NEA

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