Mini Budget 2009 - Focus on employment and long term economic growth

11 MARCH 2009

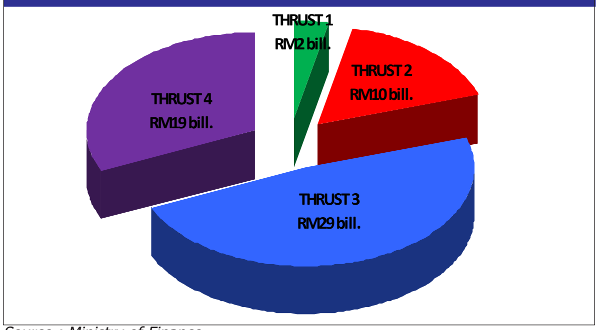
2009/0013

FOUR MAIN THRUSTS OF MINI BUDGET 2009

THRUST 1	Provide Training and Creating Employment Opportunities
THRUST 2	Ease the Burden of Citizens, In Particular the Vulnerable Groups
THRUST 3	Assist the Private Sector in Facing the Crisis
THRUST 4	Build Capacity for the Future

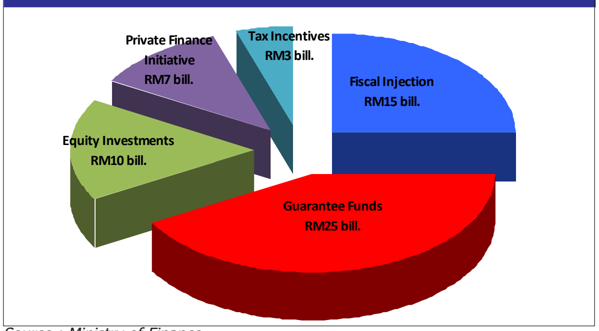
Source : Ministry of Finance

MINI BUDGET 2009 - ALLOCATION



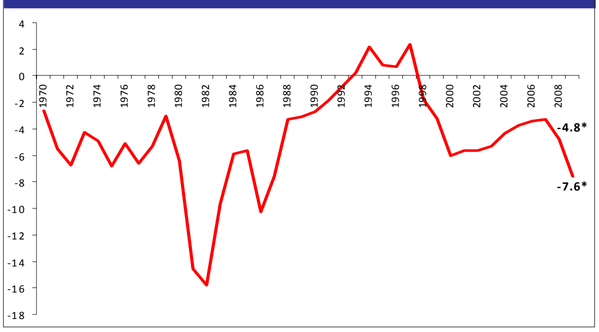
Source : Ministry of Finance

MINI BUDGET 2009 - ALLOCATION



Source : Ministry of Finance

BUDGET DEFICIT/SURPLUS AS % OF GDP



**Official estimate*
Source : Bank Negara, Ministry of Finance

- The government announced a RM60 billion second stimulus package (SSP), a supplementary to the first stimulus package announced November last year, and will be implemented over the course of 2009 and 2010. With the view of stimulating the economy in the short-term and also building the long-term capacity of the economy, SSP has underlined four thrusts in its bid to achieve its agenda. **This unprecedented initiative by the government, the largest of its kind, is very much welcome and long overdue given the deterioration on the external fronts and domestic production.**

- **Despite the huge amount allocated for the SSP, only RM18 billion is directly reflected in the Federal Government's fiscal accounts.** The other portions, RM25 billion of government credit guarantees, which likely counts as conditional liabilities rather than a direct expenses on the fiscal accounts, and of which around RM15 billion is guaranteed by Bank Negara under the Financial Guarantee Institution, which is designed to provide credit enhancement to companies intending to raise funds on the capital markets. In addition, there are also RM10 billion in equity investments by Khazanah Nasional and RM7 billion in private financing and off budget projects, all of which will not be reflected in the Federal government's accounts.

- **Thus, the overall fiscal impact is not as large as expected and the fact that the amount is to be spent over two years should be noted.** The increase in supply of MGS should also be met with ample liquidity of the banking system and also the growing risk-averse appetite by both local and foreign investors. Nevertheless, the impact on the government's budget deficit estimation of 7.6% of GDP for 2009 should not be underestimated given the substantial risk of a sovereign ratings downgrade, as highlighted by Fitch Ratings' negative rating watch last month, which was made on the assumption of a fiscal deficit of 5.7% of GDP. The sharp increase of MGS yields since February underscored this concerns and yields could spike further should there be any credit ratings downgrade.

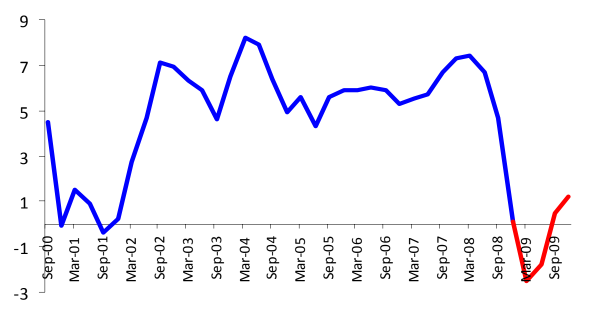
- **The issue of a large deficit however should be only secondary as compared to the risks of a severe contraction of the domestic economy due to the global financial crisis which had brought many economies into recession.** Governments worldwide have mostly announced bold fiscal measures amounting to more than US$15 trillion so far and were mostly domestic centric in nature. Plunging external demand is expected to persist so long as Malaysia's major trading partners has yet to recover and will continue its downside pressure on both growth. Consequently, any hope of a sustained economic growth should come through domestic activities, which currently is facing deteriorating consumer confidence as a result of mounting job losses, especially in the manufacturing sector.

- **Aligned with our concerns, the priority of the package is mainly to cushion job losses while providing assistance to businesses and households** during times of falling earnings and tighter credit environment. The creation of 163,000 training and job placement opportunities in the public and private sectors together with incentives of employing retrenched workers will help mitigate the impact of rising unemployment, projected at 4.5% in 2009. Further job creations are also expected to come from both small and large scale infrastructure projects targeted by the government, which we believe will have

COMPARISON BETWEEN SELECTED COUNTRIES			
COUNTRY	STIMULUS PACKAGE	OVERALL BUDGET DEFICIT 2009	TOTAL GOVT DEBT
	as % of nominal gdp		
Malaysia	**9.0**	**7.6**	**51.0**
United States	5.5	12.3	40.8
United Kingdom	1.4	8.2	39.0
Singapore	8.0	3.4	26.0
China	13.3	3.2	22.2

Source : Bloomberg LP

MALAYSIA GDP %yoy (quarterly)



Source : Bloomberg LP, PNB Research Division Forecasts

a significant multiplier effect on the economy in the medium to long run. Tax incentives for retrenched workers and the RM10,000 in annual tax relief for interest paid on housing loans for three years will further compliment these initiatives.

- **The package is also aimed to provide a lifeline to the private sector, especially the SMEs, in terms of improving cash flow and facilitate monetary liquidity.** We believe the government credit guarantees initiatives through three different schemes will be effective in terms of addressing the access to funding, especially those faced by SMEs, and also reducing the risks of business insolvencies through the carry back losses proposal. Furthermore, the establishment of the Financial Guarantee Institution is another move that could help the corporate sector to raise capital while at the same time adding depth to the domestic bond market.

- **While we applaud the move by the government to concentrate on micro issues rather than high profile projects to stimulate the economy, there is little hope that the measures would stem our domestic economy from falling into a recession.** Given the externally driven economic malaise and the fact that exports is the largest contributor to the Malaysian economy, domestic consumption will only be able to hold the economy from falling into a deeper recession. Any indication of a recovery should come from our major trading partners, namely the US, Japan and China, which we do not expect to see until at least the later part of 2H 2009. Already, exports have plunged to the lowest level in 15 years and the outlook over the coming months is getting worse. It is also worth noting that the measures will have a lagging impact and we do not see the stimulus package to show its full impact until the 4Q 2009. Even so, the SSP is more of cushioning measures while the efficiency of the implementation, based on previous experience, is still unproven.

- **In terms of GDP growth, the government has projected a fairly optimistic view of -1.0% to 1.0% growth for the whole 2009.** Our take is more on the downside, expecting the economy to fall into negative territory in the 1Q09 and 2Q09 and we revised downwards our earlier forecast for 2009 GDP from 0.0% to +0.5% to as low as -0.5% to -1.0%.