



## The Economic Stimulus Package to Boost Malaysia Property Market (Post COVID-19)

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### ABSTRACT

The purpose of this study was to see how the Economic Stimulus Package impacted the Malaysia property market. The impact of the Overnight Policy Rate (OPR) on the property market was studied as a case study. The data was analyzed using the Ordinary Least Squares method (OLS) and covered the years 2010 to 2020. It was discovered that OPR has a positive sign in relation the property market, and the Granger Causality Test demonstrates that OPR causes the volume of transactions in the property market. According to the study, the government should continue to provide the essential stimulus package to boost growth in the Malaysia Property Market

### INTRODUCTION

COVID-19 is a problematic issue, because of this disease already affects almost everything from all over the world. Even the scientist already found a method to cure this virus, it still infected and dangerous because this virus already kills more than 6.65 million worldwide (Ministry of Health, December 2022). In Malaysia, according to statistic, it states that Malaysia already to date achieves 5.01 million number of cases and 36,679 number of deaths until December 2022 (Ministry of Health, December 2022). It shows that this disease

become very problematic because of it affect the key or heart of the country which is an economy. Already four years Malaysia had suffered from this disease. Many companies lead to bankruptcy, export and import was disrupted, stock market fall and property market topple over because of this pandemic. When the one of the determinants to measure the economy was break down, it will affect the economy and the country itself. From this, stimulus package was existed. Stimulus package is an effort to increase government spending, lower interest rate, lower the taxes and how the country recovers their economy from the

pandemic. According to (Azmi et al., 2021), they mention about objectives of stimulus package in Malaysia which are protecting citizens, supporting businesses, and strengthening economy to support Malaysian citizens. According to (MOM, 2020), Prime Minister of Malaysia introduces the “*Bantuan PRIHATIN Nasional*” as a stimulus package in Malaysia in order to minimize Malaysian citizens who are affected during the COVID-19 pandemic.

Prime minister of Malaysia also introduces “*Pelan Jana Semula Ekonomi Negara (PENJANA)*” in 2020 as an incentive for the property sector (Medina, 2020) to encourage citizens in Malaysia own the property to recover the property market in Malaysia keeps dropping year by year starting from 2017. The most crucial time which is in 2019 because the property market index falls drastically because of pandemics. To recover from these losses, Malaysia encourages their citizens to own the property by increase their loans to buy a house. PENJANA also exempt the citizens from stamp duty for the purchase of property valued between RM300,000 to RM2.5 million.

Many efforts have been introduced to recover or stabilize the property market and the economy in Malaysia. Malaysia needs to reduce their Overnight Policy Rate (OPR) since OPR can be relate with lending on property and can be consider as stimulus package to help the citizens who suffer from the pandemics. It can be measure as a driver to encourage people to own a property. Reduce the OPR will increase the number of properties own in Malaysia. Malaysia’s government need to look further and what will happen in future because the property price will keep increasing align with the time, but the property market index keeps falling year by year. Malaysia’s government need to overlook this problem and find a way to recover the property market. That is why Malaysia need to overcome this issue by reducing the OPR. So, people will tend to buy property.

Since property market is one the determinant for the economy, Malaysia must do this in order to regain back to their normal position. If the property market was affected, it will automatically affect the economy and the country. The main point is stimulus package is needed because it was related with the Malaysia’s economy.

## METHOD

Therefore, to proceed the research methodology, this paper will embark quantitative research method with several data analysis. Furthermore, process in cleaning and determining the suitable data will be done. Additionally, methods such as Ordinary Least Squares (OLS) will require us to have sufficient data in order to get more accuracy in result and interpretations. Thus, we will need to obtain the coefficient.

The data will be analyzed using the Ordinary Least Squares approach. This analysis will be based on data collected over a 12-year period, from 2010 to 2021. For the OPR data it was on monthly bases, to obtain the yearly value we added the values and divided by the number of months available. The information was obtained from the Malaysian Department of Statistics and Property Guru. A Granger Causality test will be performed after the OLS analysis to determine the causal relationship between the variables. For this investigation, we will use both EViews and excel.

## RESULTS AND DISCUSSION

### ORDINARY LEAST SQUARE REGRESSION

Multiple linear regression is a statistical method that predicts the outcome of a dependent variable using multiple explanatory variables. It is designed to model the linear relationship between the explanatory variables and the dependent variable answer.

#### a) SIGNIFICANCE TEST

The t-test will be used to explain the relationship of each one explanatory variable the dependent variable. Hypothesis is defined as below:

$$H_0: \beta_I = 0$$

$$H_1: \beta_I \neq 0$$

### CASE STUDY

The OPR is the interest rate at which a depository institution lends instantly available funds (central bank holdings) to another depository institution overnight. The quantity of money a bank possesses fluctuates daily based on its lending activities and its clients' withdrawal and deposit activity, therefore the bank may conclude the business day with a cash shortage or surplus. This study will investigate the effect the OPR has on the Malaysia’s property market. It will be expected

that when there is a reduction in the OPR, there will be a surge in the property market activities. Below in Figure 1 is a graphical representation of the Overnight Policy rate from January 2020 to Sept 2021. From the graphical representation we can observe that OPR stayed at 1.75% from July 2020 till today according to the Department of statistics Malaysia. this static nature of the OPR was due to the Covid19 pandemic, and it was maintained this low to stimulate growth in the property market.

Figure 1: Malaysia OPR (Jan 2020 – Sept 2021) (Source: Bank Negara Malaysia, 2021)



**SUMMARY STATISTICS**

The variables' general characteristics are shown in Table 1 is the summary statistics. The property market volume of transactions (PMVT) is typically skewed to the right since it is closer to zero, whereas Overnight Policy Rate (OPR) is typically skewed to the left. PMVT is mesokurtic and has a flatter curve, as evidenced by the kurtosis. OPR, on the other hand, is platykurtic. According to the probability value of Jarque-Bera statistics, PMVT is regularly distributed, with a value greater than 0.10 threshold of significance.

Table 1: Summary Statistics

	PMVT	OPR
Mean	353801.7	2.9241
Median	345380.0	3.0400
Maximum	430400.0	3.2500
Minimum	299100.0	1.7500
Std. Dev	46290.21	0.4179
Skewness	0.451743	-2.0804
Kurtosis	1.848029	6.3719
Jarque-Bera	1.071661	14.3410
Probability	0.585183	0.0007
Sum	4245620	35.0900
Observations	12	12

**ORDINARY LEAST SQUARES REGRESSION**

The OLS regression was done without the unit root testing to check for the stationarity of the data, this was not done due to the small sample size of the

data. As shown in Table 2, the Overnight Policy Rate is positively associated to the volume of transactions in the property market. It shows that for every 1% increase in the overnight policy rate, the property market volume of transactions (PMVT) increases by 11640.03%, with an intercept value of 319764.3.

$$PMVT = 319764.3 + \beta_1 11640.03$$

Table 2: Ordinary Least Squares Regression

	COEFFICIENTS	STD. ERROR	T STAT	P-VALUE	Decision
INTERCEPT	319764.3	102798.2	3.11060	0.01104	-
OPR	11640.03	34830.08	0.334195	0.745136	Do not Reject $H_0$

**SIGNIFICANCE T-TEST**

Based on Table 3 shown that, there is only one variable OPR present decision to not reject the null hypothesis. Thus, it concludes that OPR has no significant influence toward PMVT. Hypothesis is defined as below:

$$H_0: \beta_1 = 0$$

$$H_1: \beta_1 \neq 0$$

Table 3: T-Test

	COEFFICIENTS	STD. ERROR	T STAT	P-VALUE	Decision
INTERCEPT	319764.3	102798.2	3.11060	0.01104	-
OPR	11640.03	34830.08	0.334195	0.745136	Do not Reject $H_0$

Note: \*\*\*, \*\*, \* = 1%, 5%, 10% Level of Significance respectively

**GRANGER CAUSALITY TEST**

Table 4 shows that the overnight policy rate (OPR) and property market volume of transactions (PMVT) have a one-way causal relationship. Indicating that the overnight policy rate granger causes property market volume transactions at 5% level of significance.

Table 4: Granger Causality Test

NULL HYPOTHESIS	OBSERVATION	F-STATISTICS	PROBABILITY
OPR DOES NOT CAUSE PMVT	10	11.7719	0.0128
PMVT DOES NOT CAUSE OPR		1.26624	0.3590

**FINDINGS**

The findings show that the economic stimulus

package introduced by the government in terms of interest rate, through the Overnight Policy Rate (OPR) to stimulate spending in the property market has a positive relationship. This is a very odd relationship as the priori expectation is that the property market transaction volume should have a negative relationship with the overnight policy rate. While in this paper, it indicates that there is a positive relationship, which means that has the overnight policy rate increases so does the volume of transaction within the market. However, after that granger causality test was carried out it was seen that overnight policy rate causes the variation in the property market transaction volume. This can also indicate that the existing property owners hold on to their property when the interest rates are reduced and are not willing to transfer ownership of their property. The immediate impact will be, drastically reduce the volume of transactions in the property market. This abnormal relationship might be due to a spurious regression.

#### **RECOMMENDATIONS FOR FUTURE RESEARCH**

The aim of the study was to determine the economic stimulus package on Malaysia property market. This study has several limitations, which are mostly related to data sources. To find data about stimulus package and property market is quite hard because of stimulus package is still new since Malaysia's government introduce first stimulus package in early 2020. Recommendation for future research is to try to become more creative in finding the data about the relationship between economic stimulus package and property market. Maybe future researcher can relate their income from property and stimulus package, they able to gain more data and get a better result because this study focuses on overnight policy rate (OPR) with the property market in Malaysia.

Other than that, future researcher may also look at country-specific factors that determine the economic stimulus package on property market. There are only a few studies carried out to examine the country-specific factors in stimulus package on property market relating to Malaysia. Future researchers may also explore and create a new knowledge by conduct this topic because this topic is still in new phase which is only fewer researchers conduct this research studies. Future researcher can investigate the lack in this review studies which is they can increase the sample size

of the research. This review studies only cover for 10 years of lifetime for stimulus package on Malaysia property market to get more appropriate results.

Furthermore, future researchers can explore more about this topic by review from the other country instead on focus on Malaysia only. If the future researchers able to obtain data and review from other countries, they will be able to collect more data and more observations because they will know what the other countries give to their citizens when this crisis happen. Future researcher able to gain new knowledge because they can enlarge their scope to over the world to get better result.

#### **CONCLUSION**

Decision to motivate people buying houses may not be the priority with the presence of pandemic COVID-19 event. It should not be and may be inappropriate for government to have in their concern in adopting decision while there is the event pandemic happened. Government will need to focus more on people's health and essential needs compare to encourage people to own houses. As from the literature review's section, focus to promote people to enliven property market was not included in economic stimulus package in most countries. However, announcement and initiatives adopted do have indirect effect on reducing people's burden. Specifically in Malaysia, as government decide to cut the tax and having the moratorium, this will slightly affect activity in property market. Obviously, it will not be expected to have positive or negative result, but players in property market will always need a trigger to have more prospects and opportunities.

However, it does not deny the issues of property-ownership in Malaysia. The issues are happening and looking more arise with more other issues. It is noticeable and more research will need to improve the situations. Nevertheless, from this paper it found that, at least strong evidence that subsidized program from government with tuning the level of interest rate will have significant benefits toward people's activity in property market.

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