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Firms:
Survival in times of crisis

KRI VIEWS 18 /20 | 27 March 2020 | Siti Aiysyah Tumin

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Three months into facing Covid-19, the government has announced various policies to help curb the pandemic, including the Movement Control Order (MCO). Now extended to mid-April, the MCO will continue to affect the economic and social life of many Malaysians. While this is a necessary step to help reduce the spread of the virus, there are economic consequences. Malaysian Institute of Economic Research (MIER) estimated the MCO will shrink the country's gross domestic product (GDP) by 2.9%, affecting 2.4 million jobs[1].

To deal with the challenges of this economic downturn, Malaysia's policy responses have attempted to help businesses, especially SMEs, on multiple fronts. Liquidity has been the key focus. The initial stimulus package announced last February included recommendations for banks to help their customers restructure or defer the payment of their loans[2]. Recently, Bank Negara Malaysia (BNM) announced an automatic deferment for all loans

[1] MIER (2020)
[2] BNM (2020a)

(except credit cards) for the next six months[3], effectively increasing the inclusion rate of this policy.

Moreover, other financing facilities to help SMEs deal with short-term cash flow issues (Special Relief Fund, microcredit) were also introduced in the first stimulus package. To help manage operation costs, other measures such as deferment and revision of tax installments, exemption from service tax and Human Resource Development Funds (HRDF) levy as well as discounts on electricity bills were given to affected sectors[4]. For micro-SMEs, some e-wallet platforms have provided further microfinancing opportunities worth RM150 million[5].

Some state governments have also announced their own stimulus packages to deal with Covid-19, many included discounts on electricity and water bills, as well as rental discount or waiver for markets and stalls[6]. Specific allocations were made for SMEs too, mostly through microcredit facilities. Some incentives directly target owner-operators, not just their businesses. For example, hawkers in some states were given cash handouts to help replace the income loss from disrupted economic activities. At the federal level, similar incentives targeting specific groups have yet been made, although the government assured that the second round of stimulus will be much more inclusive[7].

However, there are some issues to be considered here. Firstly, some incentives need to be restructured to include more sectors beyond the initially targeted sectors, considering the MCO. This takes into account the suspension of economic activities from the temporary closure of non-essential businesses. Even after the MCO, it is unlikely that businesses will recover swiftly. On the demand side, firms would expect lower sales as people reduce their consumption from continued social distancing or reduced income. On the supply side, they will face challenges to procure necessary input or intermediate goods for production due to the disruption of supply chains during the MCO[8]. These uncertainties will disproportionately affect SMEs.

Secondly, while recognising the extensive coverage of monetary policies to help businesses, loans deferred at present will still accrue interests. Even with access to the allocated special funds or microcredit facilities, firms still need to consider the interest rate they will have to pay for this financing, in addition to the interest on their existing debts. During normal times, the higher cost of debt might not be an issue, especially if firms expect higher future revenues to cover the debt costs. Unfortunately, it is unlikely that many firms, especialy SMEs, have this optimism and they will continue to be in a tough spot.

[3] BNM (2020b)
[4] MOF (2020)
[5] The Star (2020)
[6] Malay Mail (2020), Mohd Roji Kawi (2020), R.Sekaran (2020), Remar Nordin ibid., Vanar ibid., Wani Muthiah ibid.
[7] PMO (2020)
[8] OECD (2020)

Thirdly, the informal sector is excluded from these policy responses as they only target registered firms. Although this is not an unreasonable condition, we must acknowledge that there are close to 1.4 million persons employed by informal firms in the economy[9]. These businesses typically rely on their own cash or funds from family and friends[10], all of which are expected to be constrained during this crisis. As they are unregistered, they are not only excluded from the financial system, they are also "invisible" to other incentives provided by the authorities. These firms might turn to unlawful moneylenders or shut down their businesses—potentially risking the employment of 1.4 million persons.

Finally, we need to seriously consider how employment can be guaranteed as stimulus targets the firms and SMEs that employ them. Loans and discounts help businesses smooth their costs temporarily, but they can never recover losses[11]. In some countries, employment retention programs also include government commitments to cover labour costs, with the condition that workers are kept on the payroll. Singapore co-funds between 25% and 75% of local employee wages[12], Denmark covers 75%[13], while the United Kingdom covers up to 80%[14].

What would these numbers look like for Malaysia? In 2015, establishments pay an estimated RM246 billion in wages and salaries, and SMEs pay around RM128.5 billion[15]. Roughly, if the government was to cover 20% of pay for the next three months, this would cost around RM12.3 billion, or RM6.4 billion focusing on just SMEs[16]. However, this wage subsidy must be supplemented with conditions that workers remain employed. Admittedly, these policies rely on standard employer-employee relationships and might exclude the self-employed. Complementary policies to specifically address self-employed workers must be considered too[17].

During this pandemic, most of the country's policy responses to address difficulties faced by businesses, especially SMEs, have focused on extending credit facilities and favourable financing terms to help firms remain liquid. Malaysia's monetary policy response has been swift and proactive to help the resiliency of businesses. But some will still fall through the cracks—businesses in the informal sector or those excluded from formal financial institutions will be vulnerable. Fiscal policy needs to step up and protect these businesses too. This will translate to a much more expansionary fiscal spending, as noted by many economists[18] and one that is necessary to help minimise the negative economic implications of Covid-19.

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[9] DOS (2018)
[10] Kandasamy et al. (2018)
[11] Saez and Zucman (2020)
[12] Co (2020)
[13] Copenhagen Capacity (2020)
[14] UK Government (2020)
[15] DOS (2017)
[16] These estimates should be taken with caution, as they are based on 2015 figures and does not consider inflation, wage distribution or targeted sectors affected by Covid-19.
[17] Hawati Abdul Hamid (2020)
[18] Christopher Choong (2020), MIER (2020)

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