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MITIGATING THE IMPACT OF COVID-19: LEARNING POINTS

Economically, this year is shaping up to be the worst year since the Great Depression of the 1930s. The relentless spread of the coronavirus disease (COVID-19) has resulted in over a million infected, tens of thousands killed, wrecked global supply chains, and laid low many economies. It has been a bloodbath in the stock markets.

The World Bank has significantly lowered its 2020 GDP growth forecast for Malaysia to -0.1% from its previous forecast of +4.5%. Meanwhile, Bank Negara Malaysia (BNM) projects economic growth to come in between -2.0% and +0.5%.

In Q12020, the Government introduced a slew of fiscal stimulus measures totalling RM250 billion. The first package, the Economic Stimulus Package, was unveiled in February. This was followed by the Prihatin Rakyat Economic Stimulus Package – an enhancement to the first package – in March. In the same month, BNM cut its overnight policy rate by 25 basis points – the second time this year – to 2.50%.

Given the speed and scale of the outbreak, it has become increasingly apparent that the stimulus measures thus far have proven to be inadequate. For one, the measures were primarily aimed at the rakyat, with not enough support given to struggling businesses, especially small and medium-sized enterprises (SME). In acknowledgement of this issue, the Government announced on 6 April additional measures under the RM10 billion Prihatin Plus stimulus package to help ease the financial burden of SMEs.

We applaud these measures because businesses, together with the rakyat and Government, form the three legs of the economic ecosystem. If one leg breaks, the whole ecosystem collapses. SMEs are particularly important in the ecosystem because they account for about 98.5% of businesses and employ around two-thirds of the workforce. With the Movement Control Order, many SMEs are facing bankruptcy as their cash flow and revenue dry up and overhead expenses accumulate.

We think that more could be done, though. For example, one stimulus measure allows SMEs to postpone their income tax instalment payments for a period of three months beginning 1 April 2020. We think the Government could consider extending the deferment until December 2020. This is because we expect the impact of supply chain disruptions to be felt for quite some time after the outbreak ends. In any case, we do not see the pandemic clearing up anytime soon as there is still no proven cure.

However, the Government can only do just so much because of fiscal constraints. It is important that financial institutions (FI), namely commercial banks and development financial institutions, step forward at this critical moment in our economic history. It is important that they continue to inject fresh funds into the economy and support economic activities by lending to viable businesses. Otherwise, we could end up with thousands of business failures which will have dire implications for the financial system, economy and labour market. The surge in business failures could also trigger social problems on a large scale.

This is not to say that the injection of fresh funds to support economic activities will stave off bankruptcies. Considering the immense challenges ahead, there will still be business failures despite everyone’s best efforts. However, such efforts could help “flatten the curve,” an important outcome during these economically perilous times. What this means is that in the case of FIs, their continued business lending could help reduce, prevent and space out the incidence of business failures. This is important because if too many business failures occur within a short time span, the financial system could seize up.

FIs thus have an important decision to make, i.e. whether to: a) step forward and continue to lend to viable businesses, thereby helping to “flatten the curve” and stabilise the economy; or b) cut down on fresh lending, which will lead to a sudden large spike in business failures and potentially cause the financial system to seize up.

It is important to note that according to BNM, FIs are well-positioned to mitigate the present shocks and help the economy stabilise given the large financial buffers built up over the years.

Going forward, there will be lessons from this outbreak for everyone, the most important being that we are all in this together, and as such we must work together to overcome this. For business and Government leaders, there is the realisation that the world has become less flat because the outbreak has strengthened the case for nationalism.

Moving forward, the country needs to plan for future crises and stay prepared. To help set the stage for a more effective response to future crises, it will be necessary to strengthen the resilience of the Malaysian economy by improving governance and institutions. Ongoing reforms aimed at eliminating public sector wastage and patronage need to continue and be enhanced. Given the bloated civil service, recruitment should only be for essential positions, for example, in healthcare. Efforts to achieve balanced or surplus budgets should also be strengthened, with, say 2030, set as the target year. It will also be prudent to create a stabilisation fund – using the country’s petroleum revenue – to be used only during major crises.

We believe that these steps and more are necessary to keep Malaysia on track towards achieving a more secure, equitable, inclusive and sustainable future.

This article is co-authored by The Malaysian Institute of Certified Public Accountants (MICPA)
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