Special Report: Malaysia's Covid-19 Financial Support Packages – A case of prudent cash flow restructuring and not excessive cash handouts that have to be paid by future generations

BY next week, it will be 16 months since the World Health Organization (WHO) officially declared Covid-19 a pandemic. In that time, the lives and livelihoods of many Malaysians, along with the rest of the world, have gone into a tailspin, marked by rising infections and fatalities, endless lockdowns, business and job uncertainties, and a general sense of despair.

In March 2020, Prime Minister Tan Sri Muhyiddin Yassin unveiled the first financial support package to address the crisis — Prihatin — which was valued at RM250 billion.

However, as the pandemic dragged on, this was followed by seven more economic packages: Prihatin Plus (RM10 billion), Penjana (RM35 billion), Kita Prihatin (RM10 billion), Permai (RM15 billion), Pemerkasa (RM20 billion), Pemerkasa+ (RM40 billion) and Pemulih (RM150 billion) — the latest of which was announced last week. Collectively, the eight economic packages are worth RM530 billion (see Table 1).

While this is a big number, many grumble that they do not "feel it" or have benefitted much from it. Many have compared our schemes with those in the US, the UK or Singapore, which have been far more generous.

Indeed, cash handouts here (which we estimate total about RM4,400 for those in the B40 group) pale in comparison. The one-off grants of RM1,000 to RM3,000 each time to small and medium enterprises (SMEs) also appear quite paltry.

If these cash handouts feel small, they admittedly are. Despite the large RM530 billion headline size of the eight packages, direct fiscal injection — from which cash handouts and wage subsidies come from — are estimated to total just RM83 billion, or 16% of the total packages (see Table 1).

The remaining RM447 billion comprises RM50 billion in Danajamin loan guarantees, RM180 billion for the two loan moratoriums, RM170 billion for Employees Provident Fund (EPF) withdrawals and RM47 billion for other initiatives.

What this suggests is that the government is directly funding only RM83 billion of the total packages through fiscal injections plus guaranteeing another RM50 billion of loans through Danajamin.

Malaysians are effectively self-financing RM350 billion or 66% of the packages themselves — through loan moratoriums and EPF withdrawals. This is in contrast to many of the richer and more developed countries, where direct fiscal injections have been very large.

Thus, the grouses of Malaysians about insufficient government support do have some merits. But are these complaints and discontent fair? Could the government have done more?

To be fair, the government entered the crisis on a weak financing footing — following decades of financial scandals, overspending, over-borrowing and financial imprudence under previous governments. We have had so many financial scandals and weak fiscal management in the past that the country's financial resources had been severely sapped even before Covid-19 hit our shores.

Malaysia's public financial position has severely worsened in the last two decades, especially in the last 10 years. The chart on Page S3 shows the clear story.

Malaysia's government debt and government guarantees have grown rapidly over the past two decades, from just RM175.7 billion in 2000 to a staggering RM1.2 trillion in 2020, or from 49.3% to 83% of nominal GDP. This came as budget surpluses of the 1990s gave way to persistent budget deficits since 1998, with overspending resulting in rising indebtedness.

To put this into the perspective of debt and income: from 2000 to 2020, government debt and government guarantees grew by a compound annual growth rate of 10%, while nominal GDP grew by a CAGR of 7.2%.

Government debt grew 1.4 times faster than income. From 2008 to 2020, government debt and government guarantees grew at a CAGR of 10%, outpacing nominal GDP's CAGR of just 5.2%. Thus, government debt grew at twice the rate of its income during this period.

As the government already started from a weak financial footing before the Covid-19 pandemic began, it cannot afford to spend aggressively, unlike countries with strong balance sheets such as Singapore or those that can "print money" like the US. Doing so would put our fiscal position, financial standing, currency and inflation, among others, at more risk of dire consequences.

To be sure, every government in the world would like to be popular. Populist actions win elections. And with the general election held every five years or so in most democratic countries, one doesn't really need to think long term: just spend and borrow, pay later. The problems will be someone else's. But someone — that is, future generations — will ultimately pay the price many years down the road.

The choice is clear. There is no free lunch: you pay, or your children and the next generation will have to foot the bill. Against this backdrop, Malaysia has opted for a more prudent approach and designed packages that do not severely strain our fiscal position, but still create a large multiplier effect.

At the heart of these schemes lies the cleverly crafted blanket country-wide, all-encompassing six-month loan moratorium from April to October 2020, for all individuals and businesses, big and small.

This was followed by targeted loan moratoriums for affected borrowers, and a further six-month loan moratorium under Pemulih for all individual borrowers and micro enterprises.

This loan moratorium was the first government-mandated, country-wide, all-encompassing loan moratorium anywhere in the world, in response to the Covid-19 crisis (Singapore quickly followed). The moratorium effectively restructures the entire debt portfolio of all individuals and businesses in Malaysia, extending their obligations and providing a lifeline for individuals and businesses by providing much needed liquidity to face a major unprecedented global crisis.

Liquidity and cash flows are the critical lifelines to help one ride through any crisis. Yes, detractors can argue that loans are only deferred and will still need to be repaid, and they don't address the loss in income. Ultimately though, when it comes to the crunch, liquidity and cash flows matter most. It buys much needed time to address the balance sheet and income effects of any major crisis.

Let us now dissect how the various packages have helped various groups.

CASH FLOW IMPACT ON SMEs

SMEs form the backbone of the economy and generate substantial employment. According to the Department of Statistics, these businesses contributed 38.9% to GDP and 48.4% to employment in Malaysia in 2019. Thus, it is imperative that SMEs be given support.

Much of the grouses of SMEs have focused on the very small amounts of one-off grants given to the sector, in amounts of RM1,000 to RM3,000 each time, or totalling RM7,000 for most SMEs and RM10,000 for those in selected adversely affected sectors, by our estimates.

Yes, those amounts are paltry. But much of the government support for the sector comes from two key sources: the loan moratorium and wage subsidies. All SMEs enjoyed an automatic six-month loan moratorium under Prihatin, while micro enterprises enjoyed a further six months under Pemulih. Adversely affected businesses could also restructure their loans or defer payments under targeted schemes.

The government's wage subsidy programme, aimed at keeping Malaysians employed and preventing retrenchments, has wide-reaching effects for SMEs as it caters for large numbers — up to 500 employees per SME — and runs for well over a year.

The wage subsidy applies to SMEs that have generally suffered at least a 30% decline in income. It pays the SME a wage subsidy of RM600 per month for each employee earning below RM4,000 per month, for up to 500 employees per SME.

Note the wage subsidy was as high as RM1,200 per person under the first scheme in Prihatin, and the RM4,000 salary cap was dropped under Pemulih. In theory, an SME with 500 employees could enjoy a subsidy of RM300,000 per month for 13 months.

A summary of the wage subsidy scheme is shown in Table 3.

Under the six economic packages (Prihatin, Penjana, Kita Prihatin, Permai, Pemerkasa+ and Pemulih), we estimate that SMEs would have received a total of 13 months of wage subsidies during the 21-month period from April 2020 to December 2021. SMEs in selected, adversely-affected sectors would receive an additional six months of wage subsidies, or a total of 19 months.

We have outlined five examples of SMEs in our various scenarios (see Table 2), grouped according to their definition by SME Corp. In these examples, we have assessed their positive cash flow impact from the eight government packages over the 21-month period from April 2020 to December 2021. As can be seen, the cash flow impact can be quite substantial, mainly from the loan moratorium and wage subsidies, which assist SMEs with some additional liquidity.

Scenario A: Micro enterprise

Assumptions:

No of employees: 5

Loan size: Term loan of RM300,000 for five years at 4.5% per annum

Loan moratorium period: 12 months

Wage subsidy period: 13 months

Total positive cash flow impact: RM122,115 (RM5,815 per month)

A micro enterprise is defined by SME Corp as one with sales of less than RM300,000 per annum or fewer than five employees. Micro enterprises enjoy a loan moratorium of 12 months — six months under Prihatin and six months under Pemulih. The loan moratorium (interest and principal repayment) would result in RM67,115 worth of additional cash flow for 12 months. The micro enterprise gets to enjoy wage subsidies for 13 months worth RM48,000, as well as RM7,000 of government grants.

Taken together, these incentives have a positive cash flow impact of RM122,115, or RM5,815 per month, over the 21-month period.

Scenario B: Small SME

Assumptions:

No of employees: 75

Loan size: Total loan of RM10 million, comprising RM8 million term loan for five years and RM2 million in revolving credit, both at 4.5% per annum

Loan moratorium period: 6 months

Wage subsidy period: 13 months

Total positive cash flow impact: RM1,666,865 (RM79,375 per month)

A small SME is defined by SME Corp as one with sales of RM300,000 to RM15 million a year, or 5 to 75 employees. Small SMEs enjoyed a six-month loan moratorium under Prihatin. This loan moratorium (interest and principal repayment for the term loan, and interest only for the revolving credit) would result in RM939,865 worth of additional cash flows for six months. The small SME gets to enjoy wage subsidies for 13 months totalling RM720,000, as well as small government grants, if eligible.

Taken together, these incentives have a positive cash flow impact of RM1,666,865, or RM79,375 per month, over the 21-month period.

Scenario C: Medium SME

Assumptions:

No of employees: 200

Loan size: Total loan of RM50 million, comprising RM40 million term loan for five years and RM10 million in revolving credit, both at 4% per annum

Loan moratorium period: 6 months

Wage subsidy period: 13 months

Total positive cash flow impact: RM6,306,965 (RM300,332 per month)

A medium SME is defined by SME Corp as one with sales of RM15 million to RM50 million a year, or 75 to 200 employees. Medium SMEs enjoyed a six-month loan moratorium under Prihatin. This loan moratorium (interest and principal repayment for the term loan, and interest only for the revolving credit) would result in RM4,619,965 worth of additional cash flows for six months. The medium SME gets to enjoy wage subsidies for 13 months worth RM1,680,000 as well as small government grants, if eligible.

Taken together, these incentives have a positive cash flow impact of RM6,303,965, or RM300,332 per month, over the 21-month period.

Scenario D: Large SME

Assumptions:

No of employees: 500

Loan size: Total loan of RM150 million, comprising RM120 million term loan for five years and RM30 million in revolving credit, both at 4% per annum

Loan moratorium period: 6 months

Wage subsidy period: 13 months

Total positive cash flow impact: RM17,759,896 (RM845,709 per month)

There is no official definition of a large SME. We have assumed one with the above parameters. The large SME enjoyed a six-month loan moratorium under Prihatin. Given the large assumed loan of RM150 million, the loan moratorium (interest and principal repayment for the term loan, and interest only for the revolving credit) would result in RM13,859,896 worth of additional cash flows for six months. There are also wage subsidies for 13 months for 500 employees worth RM3.9 million.

Taken together, these incentives have a positive cash flow impact of RM17,759,896, or RM845,709 per month, over the 21-month period.

Scenario E: Adversely affected small business (eg tourism)

Assumptions:

No of employees: 50

Loan size: Term loan of RM10 million for five years at 4.5% per annum

Loan moratorium period: 12 months (6+ 6 months)

Wage subsidy period: 19 months

Total positive cash flow impact: RM2,907,162 (RM138,436 per month)

In this final example, we look at an adversely affected small business, for example, in tourism, as such businesses enjoy more incentives, including an additional six-month loan moratorium (negotiated with banks), and an additional six months of wage subsidies, totalling 19 months. The loan moratorium (interest and principal repayment) would result in RM2,237,162 worth of additional cash flows for 12 months, while the wage subsidies for 19 months are worth

RM660,000. It is also eligible for government grants worth RM10,000, including RM3,000 under Pemerkasa.

Taken together, these incentives have a positive cash flow impact of RM2,907,162, or RM138,436 per month, over the 21-month period.

CASH FLOW IMPACT ON HOUSEHOLDS

Historically, Malaysia has had a low unemployment rate, and thankfully, even during the height of the crisis, unemployment has stayed low. Hence, a critical part of the government's schemes is to keep people employed. As mentioned earlier, this was addressed by the wage subsidy schemes for SMEs, as they employ nearly half of Malaysia's total workforce.

However, there are also two key problems for Malaysian households: a high level of household debt (the country has one of the world's highest household debt-to-GDP ratios) and relatively low income levels. There are also minimal to no social safety nets, such as unemployment benefits.

However, there is a large pool of forced savings through EPF. These funds are for retirement but in times of crisis, where liquidity is the key to survival, the government has allowed individuals to withdraw from their EPF accounts.

The amounts that can be withdrawn under the three EPF schemes (i-Lestari, i-Sinar and i-Citra) amount to between RM21,000 and RM71,000, depending on the available balance. Of course, withdrawals from the provident fund now come at the expense of saving for the future.

The first line of defence in helping households has been to keep unemployment low by helping SMEs retain their workers through wage subsidies and loan moratoriums. The government has also provided several rounds of one-off grants, which we estimate would total RM4,400 for B40 households, as well as deferments of education loans, public housing rents and electricity rebates, among others.

More crucially, though, are the two blanket loan moratoriums totalling 12 months — six months under Prihatin and six months under Pemulih — since Malaysian households are highly indebted and most low- to medium-income households have minimal discretionary income left after loan repayments.

We have outlined three examples of households in our various scenarios (see Table 4): B40 (bottom 40% income group, assumed household income of less than RM3,000 per month), M40 (middle 40% income group, assumed household income of RM8,000 per month) and T20 (top 20% income group, assumed household income of RM30,000 per month).

In these examples, we have assessed their positive cash flow impact from the eight government packages over the 21-month period from April 2020 to December 2021. As can be seen, the positive cash flow impact is primarily from the loan moratoriums, which add to the disposable and discretionary income for those employed, or helps tide over those retrenched or have suffered pay cuts.

For the B40 group, the additional cash flow of RM2,184 per month is 73% of income, and probably adds entirely to the household's disposable and discretionary income. If the household is unemployed, almost three-quarters of income will be covered by these cash flows. The M40 group will see a 40% increase in cash flows from these measures while the T20, likely unaffected by the crisis, saw a substantial gain in cash flows, which probably found its way to the stock market last year.

There is a big caveat for the hardcore poor in the B40 group though, as most of these positive cash flows are mostly from the loan moratorium. The hardcore poor who have lost their jobs and have no car, no house and no EPF are badly affected and would need bigger government handouts.

Scenario A: B40 group

Household income: below RM3,000 per month

Housing loan: RM250,000 for 30 years at 3.5% per annum

Car loan: RM40,000 for 7 years at 3.2% per annum

Loan moratorium: 12 months

Total positive cash flow impact: RM45,866 (RM2,184 per month)

For a B40 household earning, say, RM3,000 per month, the household will enjoy a 12-month loan moratorium on housing and car loans. Based on the above assumptions, the moratorium on these two loans will translate into additional cash flows of RM20,466.

The B40 household will receive a variety of government grants targeted at this group, which we estimate total around RM4,400. In terms of EPF withdrawals, subject to sufficient funds, the household could withdraw RM21,000 from EPF under the i-Lestari, i-Sinar and i-Citra schemes.

Taken together, these incentives have a positive cash flow impact of RM45,866, or RM2,184 per month, over the 21-month period.

For a household barely able to make ends meet with a monthly household income of just RM3,000, the additional RM2,184 represents a substantial 73% increase in gross income, with disposable income rising from probably zero or negative to over RM2,000. However, there is a big caveat for the hardcore poor as we mentioned earlier, who would not benefit from the loan moratorium and would need more cash handouts.

Scenario B: M40 group

Household income: RM8,000 per month

Housing loan: RM500,000 for 25 years at 3.5% per annum

Car loan: RM80,000 for 7 years at 3.2% per annum

Loan moratorium: 12 months

Total positive cash flow impact: RM66,926 (RM3,187 per month)

For an M40 household earning, say, RM8,000 per month, the household will enjoy a 12-month loan moratorium on housing and car loans. Based on the above assumptions, the moratorium on these two loans will translate into additional cash flows of RM44,026.

The M40 household will receive some small government grants, which we estimate will total around RM1,900. In terms of EPF withdrawals, subject to sufficient funds, the household could withdraw a base of RM21,000 from EPF under the i-Lestari, i-Sinar and i-Citra schemes. EPF withdrawals of up to RM71,000 are allowed if there are sufficient funds.

Taken together, these incentives have a positive cash flow impact of RM66,926, or RM3,187 per month, over the 21-month period.

For a household that would probably have little savings left after paying off loans, depending on their lifestyle, on a monthly household income of RM8,000, the additional RM3,187 represents a substantial 40% increase in gross income. If the household had only RM1,000 to RM2,000 of savings originally per month, disposable income would rise fourfold.

Scenario C: T20 group

Household income: RM30,000 per month

Housing loan: RM1.5 million for 25 years at 3.5% per annum

Car loan: RM200,000 for 7 years at 3.2% per annum

Loan moratorium: 12 months

Total positive cash flow impact: RM125,084 (RM5,956 per month)

For a T20 household earning, say, RM30,000 per month, life is already good and they do not need government support. Still, their cash flows get even better with a 12-month loan moratorium on housing and car loans, which we estimate translates into additional cash flows of RM125,084. This group is also eligible for EPF withdrawals of up to RM71,000, but is unlikely to withdraw any, and hence we have not included any EPF impact. The positive cash flow impact of RM125,084 is equivalent to RM5,956 per month over the 21-month period, and would have probably gone to the stock market, savings or other assets given the lack of travel and other worldly pursuits.

CONCLUSION

1 Yes, the Covid-19 pandemic has brought much devastation to human life, individuals and businesses. The loss in income for individuals and businesses can be significant. And the various stimulus packages are far from making up for this. Some countries, such as Singapore, the US and the UK, have given out more direct help. Malaysia simply cannot afford to do so.

2 Given that the strategy was to help companies sustain themselves and keep their workers, the focus was on restructuring their debt repayments, so that they have sufficient liquidity and cash flows. Similarly, the government helped to subsidise wages where possible.

3 The same strategy goes for individuals. Without the ability to give free money to help the loss of income, the strategy was to defer their monthly debt repayments so they have sufficient cash to survive.

4 Why can't we just simply give more cash handouts? There have been too many financial scandals and fiscal indiscipline in the past. As a result, our financial position is severely stretched.

5 The government has already given out a whopping RM83 billion in cash handouts. Giving out billions more, as some have demanded, may be popular and would help win an election, but it would be highly reckless and irresponsible.

6 Giving more cash handouts only means our children and grandchildren will end up having to pay for our current difficulties.

7 The strategy to restructure both corporate and individual debts via loan moratoriums is therefore the more prudent and responsible route to take. And it has been effective in helping with cash flows for many, if not all, these past 16 months.

https://www.theedgemarkets.com/article/special-report-malaysias-covid19-financial-support-packages-%E2%80%93-case-prudent-cash-flow