

A Proposal for Further Economic Stimulus to Counteract the Covid-19 Crisis

2nd April 2020

Executive Summary

The most urgent priority in handling the current economic crisis is the continued flow of liquidity to address the risk of contagion from hard-hit sectors to rest of the economy. Companies and households alike cannot be allowed to run out of money, so sustaining workers' incomes to maintain aggregate demand and minimising costs of collapsing businesses are deemed essential.

Direct Support Schemes

The first step was to provide wage support to the hardest hit sectors. The next step is to extend this support to all companies outside the identified sectors who are experiencing a sizeable reduction in turnover. Companies that lose at least half of their turnover are to be supported by wage subsidies equivalent to €800 per month per employee and companies that lose 25-49 per cent are to be afforded a €400 benefit per month per employee. Government will be entitled to conduct ex-post evaluations on beneficiary companies to ascertain eligibility with the possibility to reclaim funds.

Fiscal Measures and Rents

Deferments on all forms of taxation, including Income Tax, VAT as well as Excise Duties will help with liquidity. It is proposed that rental fees payable to Malta Industrial Parks are waived and those to the Lands Authority are suspended with suspensions applicable to sub-leases. On commercial rents, an equitable system is proposed between landlord and tenant stipulating that, during the crisis, the rent is reduced by (x%) and if it is not paid, it becomes payable in full.

The Role of the Banking System

The Banking System must ensure that liquidity reaches business whilst keeping the cost of borrowing low. Banks should not unnecessarily withhold loans for projects. Most companies are operating with a few months of liquidity so timeliness with providing liquidity is of essence. Banks are encouraged to be flexible and align themselves with the short-term economic priorities and time-frames of business. The Chamber refutes the idea of a windfall tax on banks.

Protection of Capital Markets

Ensuring a healthy and vibrant capital market is also critical in a scenario where issuers do not have adequate revenue to support their obligations. The Chamber proposes a fund to enable intervention in the capital markets through asset purchase programmes providing necessary stability. The capital market needs to be protected as a prime source for raising capital as well as an important source of income for a considerable number of people including pensioners who invested their life savings.

Protection of Company Directors

It is recommended that Government enacts legislation to relax the rules of insolvency enabling business owners to focus on salvaging their businesses without fear of eventually being accused of wrongful trading. The Companies Act needs to be amended to render liquidations as efficient quick and painless as possible, to limit liability on creditor claims directly related to Covid-19, and to give directors of these companies every fair opportunity for a second chance.

Additional Considerations

All schemes must be fair and reasonable in criteria and adequacy. They must be implemented quickly, well communicated, easy to understand and straightforward to apply. They must also be administratively efficient to operate and benefit from. It is also stressed that all economic stakeholders are to share the burden in a spirit of solidarity. This includes public-sector employees who need to contribute in an equitable burden sharing mechanism through wage cuts of not less than 20 per cent with the exception of people engaged in healthcare, the Armed Forces, law-enforcement, cleaning and utility providers. Government must insist with the EU for support and protection in all aspects related to Malta's peripheral location and insularity.

Going forward, special assistance is to be given to proactive companies that are investing in their future viability in a post-Covid-19 world. Whilst full consideration must be given to health considerations as recommended by the competent authorities, a prolonged shutdown of the economy will exacerbate the damage. It is crucial that the authorities send positive messages of hope that there will be a gradual re-opening of the economy as soon as it is safe to do so.