

Doing business amid COVID-19 outbreak 1/12/20

Governments and health supervisory agencies around the world have launched an all-out fight against COVID-19, but more needs to be done. Several countries have quarantined millions of people, and if the situation deteriorates, more countries might follow suit. COVID-19 has become a serious risk for the Latvian economy as well as globally.

Although the spread of COVID-19 in Latvia is currently smaller than in many other European countries, the tourism, hospitality and aviation sectors are facing the economic consequences of COVID-19.

Because of changing consumer behaviours and stoppages in production and delivery, businesses should be ready to tackle cash-flow and liquidity problems. The order book is shrinking, bills remain unpaid, public events are cancelled, and there is a risk that goods from abroad will not be delivered.

Sudden disruptions to the supply chain and weakening demand in the short term will challenge businesses to keep up sufficient cash flows for discharging their current liabilities, which may eventually put their solvency at risk. It is important to prevent the impaired cash flows from causing collective dismissals, contract terminations and insolvencies, and to avoid disruptions to loan flows through bank asset impairments and late loan repayments, which would substantially worsen the effects of COVID-19 on the economy, weaken the prospects of recovery, and lengthen recovery periods. The banks understand that this situation may put certain customers in circumstances that affect performance of their obligations, but any obligation must be honoured as agreed and in good faith. To deal with complications, the banks are asking you to contact them immediately and address any problems early. The banks are certainly interested in finding reasonable solutions.

Yet these circumstances that create complications for everyone will not go on forever. CFOs should carefully monitor their cash flows and, if necessary, look at various available borrowing opportunities to mitigate the blow dealt by COVID-19.

Below are a few possible measures to prevent a liquidity shortage resulting from the COVID-19 crisis:

- Optimising your current assets with a focus on early and accurate invoicing combined with active and efficient debtor management;
- Adjusting your cost structure, including staff costs;
- Tax opportunities such as asking the State Revenue Service ("SRS") for extended tax payment deadlines;
- Adjusting your current financing, with emergency borrowing and state aid;
- Contacting your bank and finding a solution to restructure your financing.

We are currently getting to know some new ways of working. For example, home working could become more popular in the long term because of fear caused by COVID-19. Videoconferencing may become the new standard as business travel is restricted.

The initial set of state aid measures could include extended tax payment deadlines, tax refunds and other state payments to businesses (e.g. invoice payments) to be made faster, temporary restrictions on terminating tenancies and other agreements if a party is having liquidity problems, temporary extension of bank loan repayment deadlines, freezing the calculation of contractual penalties, and an opportunity to

accrue (postpone) interest payments for a certain period, while securing a regulatory tolerance for the banking sector and support for workers who are forced to work only part-time or go on unpaid leave as a result of idleness. These events would allow businesses and households to overcome short-term liquidity restrictions more successfully.

The government is currently working on support measures for businesses and workers.

Senior SRS officials encourage taxpayers to invoke section 24 of the Taxes and Duties Act, which provides that businesses may apply to the SRS for extended tax payment deadlines if the taxpayer is late because of force majeure. Businesses should file an “Application for an extended tax payment deadline” on the Electronic Declaration System and state their reasons, e.g. they are active businesses designed to receive guests and make bookings. Their tax payment history will be examined and each case assessed on its merits. There are also plans for drafting a new law to extend tax holidays for up to three years.

Development finance institution Altum will provide a support programme with credit guarantees to enable businesses facing temporary cash-flow problems to postpone their loan repayments until the situation improves.

To help the banks continue lending, the Single Supervisory Mechanism responsible for banking supervision in Europe decided on 12 March to relax the requirement for building and maintaining liquidity and capital reserves at banks in response to COVID-19. Thus, all businesses facing temporary difficulties should primarily contact their bank.

The Welfare Ministry is working on proposals for jointly providing fixed-term state aid to employers in ensuring payment of sickness notes, which will also need extra financing from the national budget during COVID-19.

Life after COVID-19

In 2007, Nassim Nicholas Taleb, a former Wallstreet trader and currently a writer, coined the term “black swan event” to describe unexpected and unknown events that cause changes in society at large. The outbreak of COVID-19 could be one of such events. Many may find its consequences to be truly devastating, such as a close relative falling ill or dying. However, the impact on society at large is not always only negative.

One day the panic about COVID-19 will disappear. Governments and health supervisory agencies will win this fight, and life will get back to normal. So businesses should be getting ready to ride out this storm in the short term.