

COVID Liquidity Crunch and Government Support

Andreas Heuser 27 May 2020



Systemic Supply Shock from COVID Response

Firms Facing Liquidity Crunch?

International SME Finance Packages

Implications for New Zealand SME Guarantee Scheme



"Go hard and early" an economic supply shock for firms...



GDP by Industry During Levels 3 and 4 (as Percentage of Pre-COVID Level)

Source: **Reserve Bank of New Zealand**

... combined with demand side shock



Liquidity crunch?

Correlated supply shock causes permanent damage to balance sheets

> Widespread reduction in bank risk appetite for **all** borrowers

> > Likelihood of widespread firm failures

> > > Orderly recovery unlikely

International SME finance packages

USA Paycheck Protection Program (PPP) Max. Ioan amount: 8 weeks of payroll costs Guarantee: 100% Speed: East (some criticisms)

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1. Coronavirus Business Interruption Loan Scheme (CBILS) Max. Ioan amount: \$10.1 million Guarantee: 80% Speed: Slow

2. Bounce Back Loans Max. Ioan amount: \$100,000 Guarantee: 100% Speed: Fast GERMANY

KfW Instant Loan Max. loan amount: \$900,000 for <50 employees; \$1.44 million for >50 employees Guarantee: 100% Speed: Slow

SWITZERLAND COVID-19 Credit and Credit-Plus Max. loan amount: 10% of annual turnover Guarantee: 85%-100% Speed: Fast

> INDIA Emergency Credit Line Max. Ioan amount: 20% of outstanding credit Guarantee: 100% Speed: Fast

AUS SME Guarantee Scheme Max. Ioan amount: \$269,000 Guarantee: 50% Speed: Slow

Features of well-functioning schemes:

- Prompt and efficient administration
- Subordinated debt with a long-term equity-like quality
- Clear risk transfer to the government (all or significant part)
- Supportive wider policy settings

New Zealand's SME Support

- SME Guarantee Scheme does not lower credit risk. Banks likely to tighten criteria
- 20% of banks' credit risk still subject to normal credit criteria
- Cashflow Scheme modest and only for <50 employee firms
- Bank administered, more generous scheme could be warranted?

New Zealand Firms by Number of Employees (2018)



Source: Statistics NZ, 2018 Enterprise Survey



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