

# **COVID Liquidity Crunch and Government Support**

Andreas Heuser 27 May 2020



Systemic Supply Shock from COVID Response

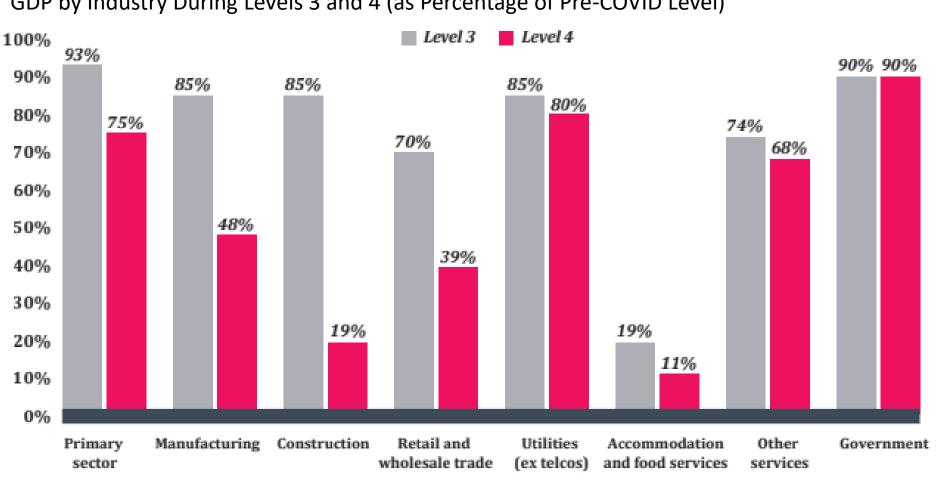
Firms Facing Liquidity Crunch?

**International SME Finance Packages** 

**Implications for New Zealand SME Guarantee Scheme** 



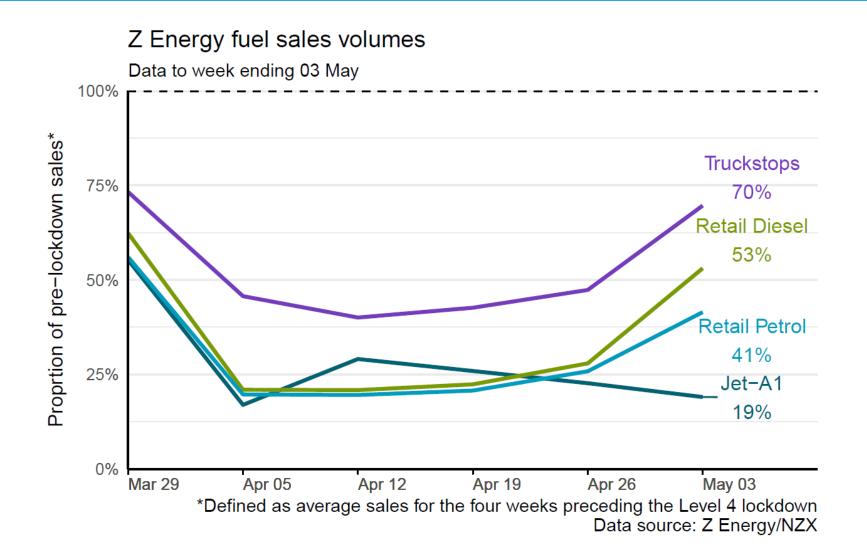
# "Go hard and early" an economic supply shock for firms...



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

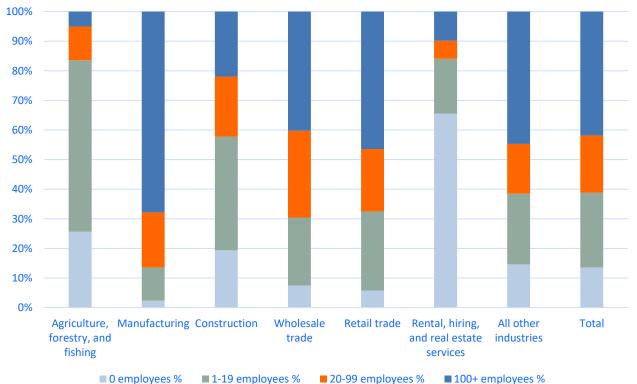
*Features of well-functioning schemes:* 

- 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</li>
- 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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