



# COVID Liquidity Crunch and Government Support

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27 May 2020



**Systemic Supply Shock from COVID Response**

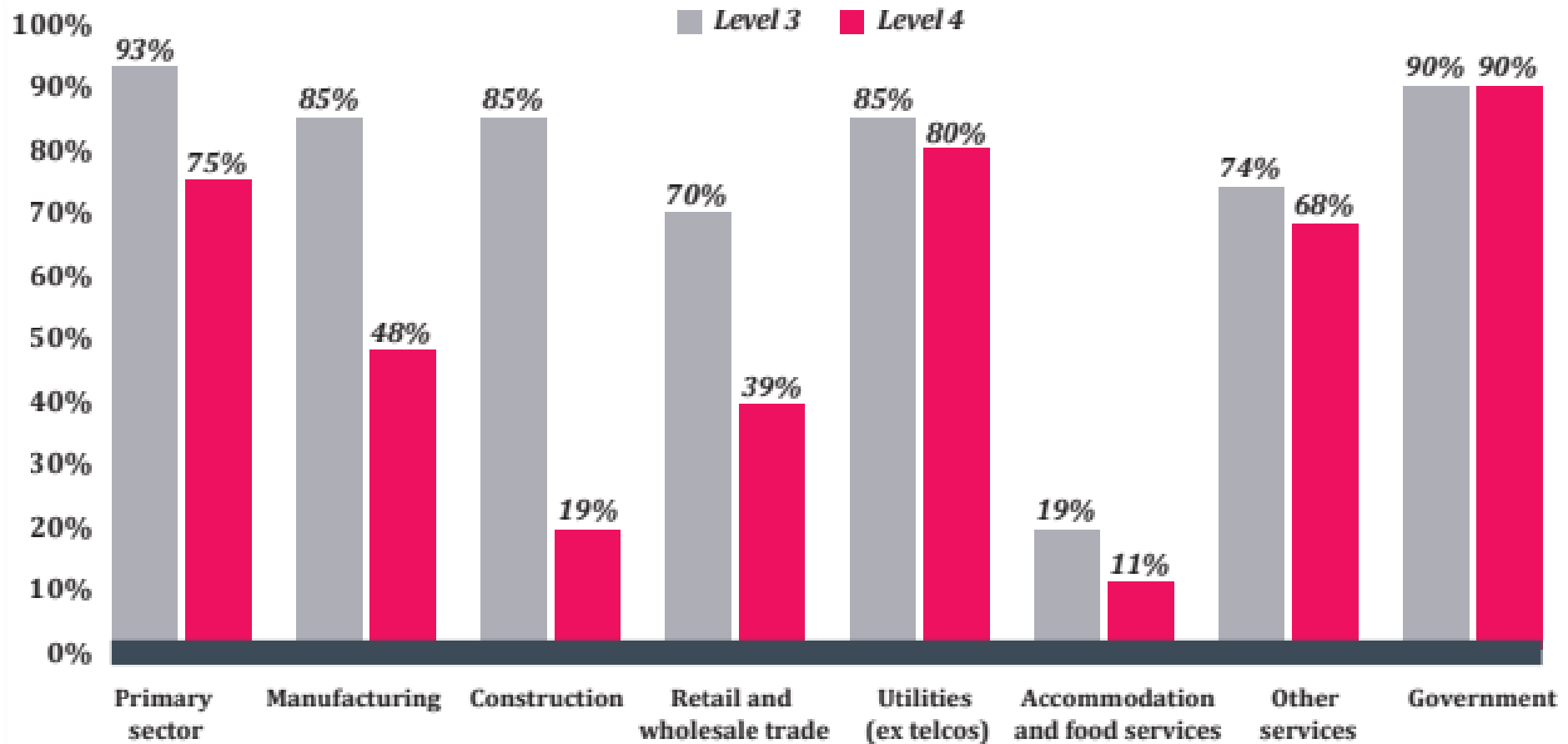
**Firms Facing Liquidity Crunch?**

**International SME Finance Packages**

**Implications for New Zealand SME Guarantee Scheme**

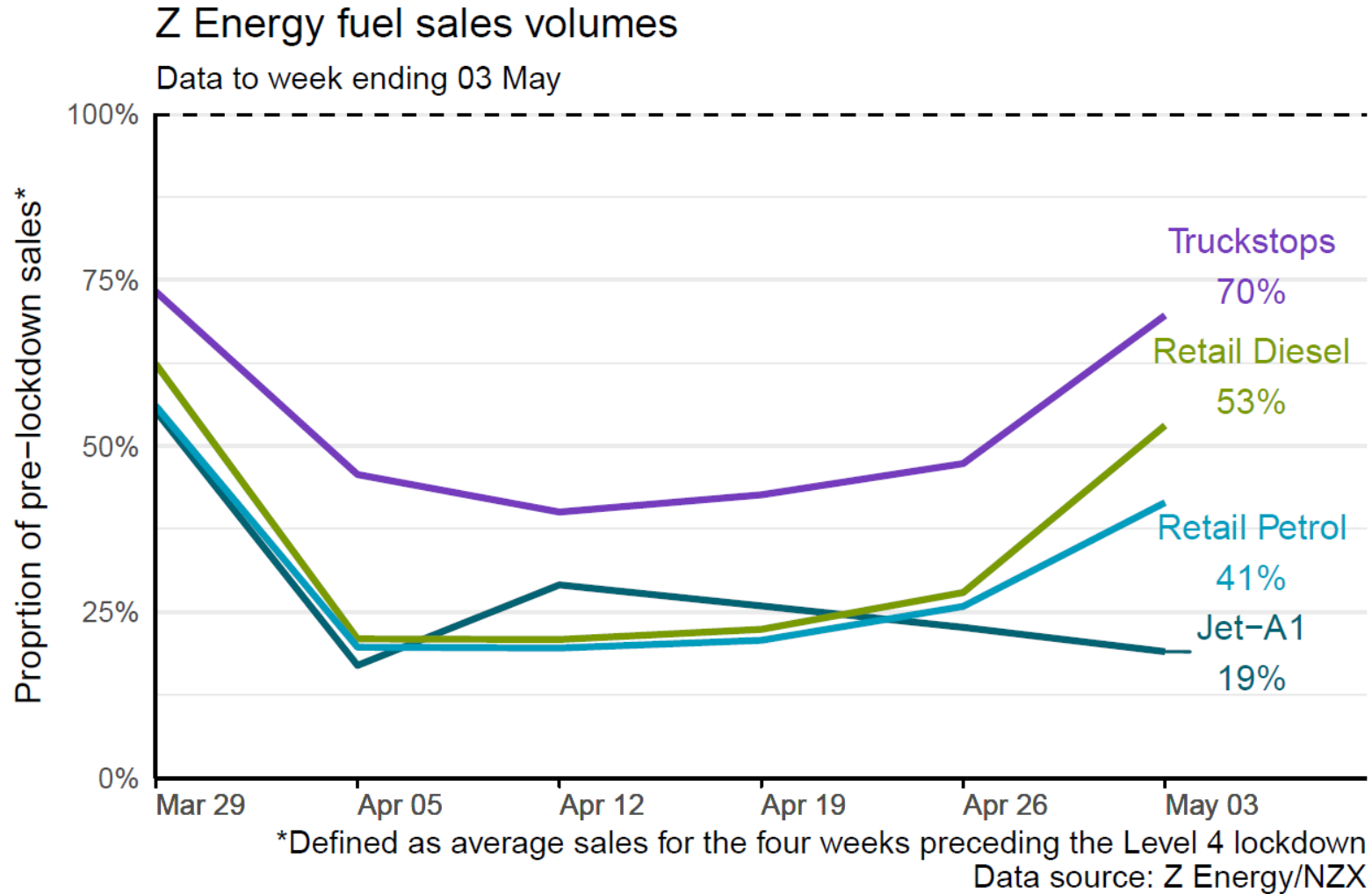
# “Go hard and early” an economic supply shock for firms...

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



Source: Reserve Bank of New Zealand

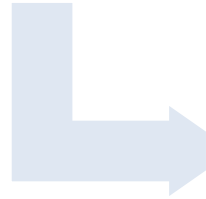
## ... combined with demand side shock



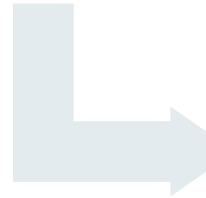
# Liquidity crunch?

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Correlated supply shock  
causes permanent  
damage to balance sheets



Widespread reduction in  
bank risk appetite for all  
borrowers

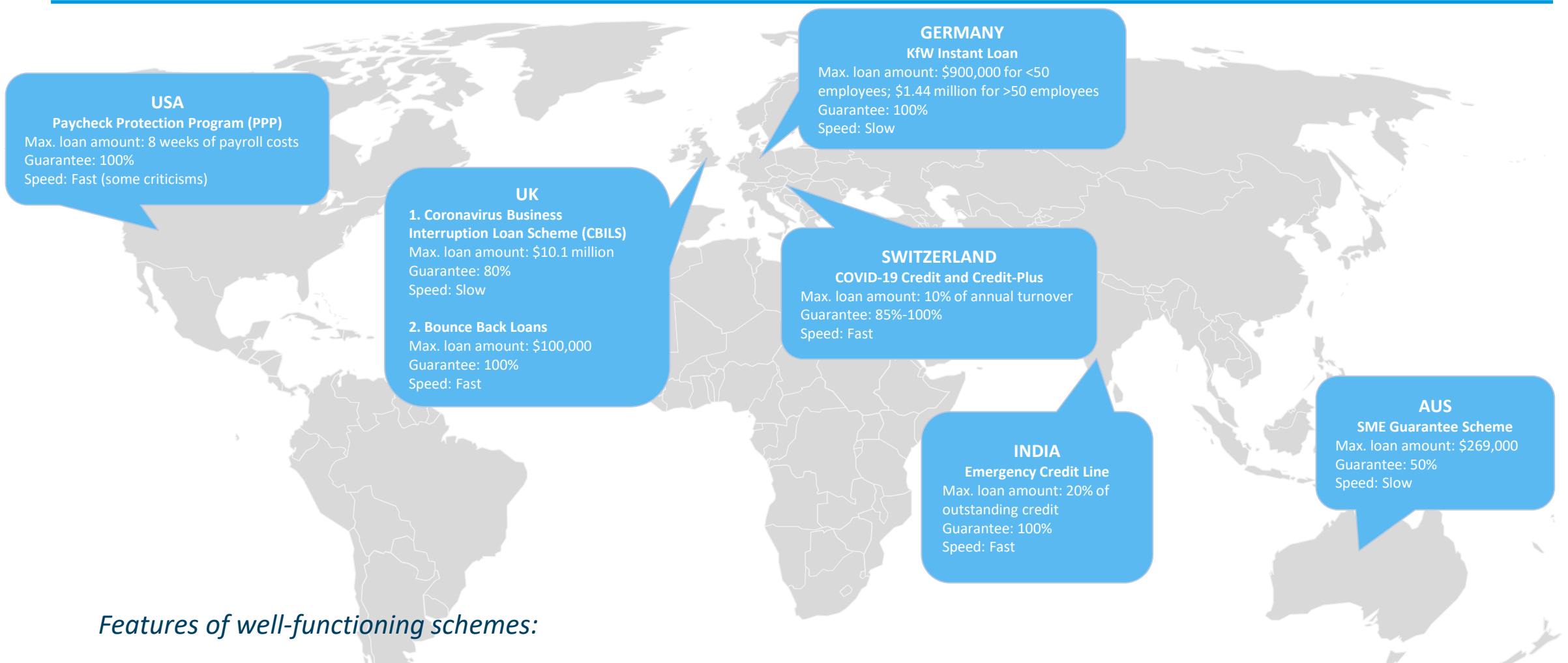


Likelihood of widespread  
firm failures



Orderly recovery  
unlikely

# International SME finance packages



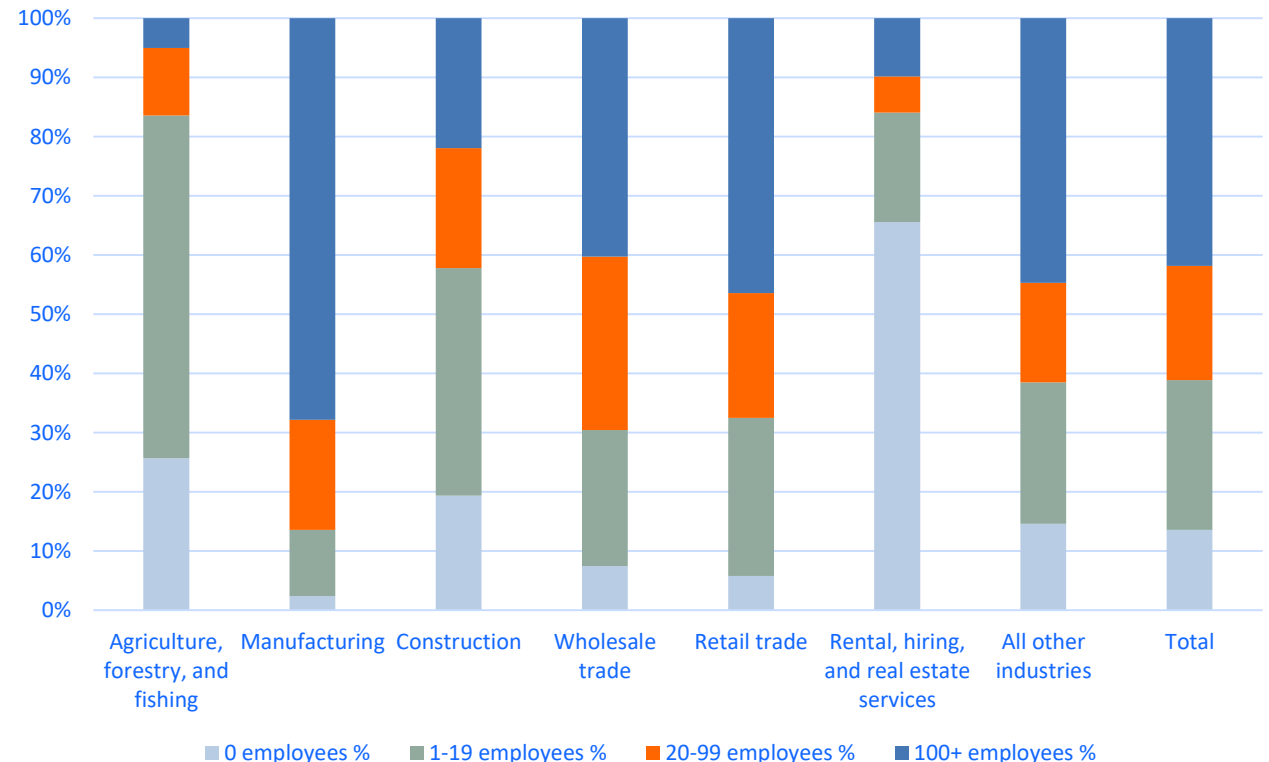
## Features of well-functioning schemes:

- 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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