

BUSINESS ALERT



Business Council of
British Columbia
Est. 1966

APRIL 2, 2020

NATIONAL FISCAL RESPONSES TO THE COVID-19 PANDEMIC: A CROSS-COUNTRY COMPARISON

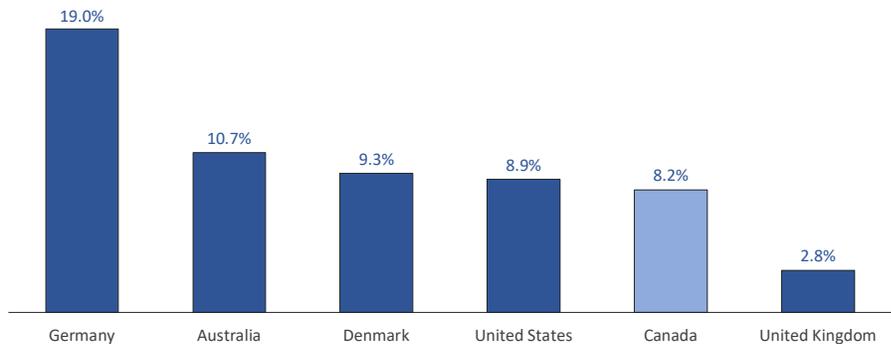
Many governments around the world are deliberately deactivating their economies, albeit with varying severity, as a central part of their public health strategies to address the COVID-19 pandemic. This extraordinary supply-side economic shock will elicit a rapid downturn in domestic and global demand. Ahead lies potentially the worst economic downturn since the Great Depression, along with a greatly expanded role for the state in economic affairs.

Massive fiscal packages have been announced in recent weeks by many advanced economies. The primary aim, in effect, is to provide “bridging” cash flow to households and businesses to see them through a shutdown period of uncertain duration. While there are some differences, the bailout packages are gradually converging across countries in timing, size and scope.

Table 1 compares the monetary policy measures of the Bank of Canada, Reserve Bank of Australia, European Central Bank, Bank of England and U.S. Federal Reserve.

Figure 1 compares national government fiscal packages for Canada, Australia, Denmark, Germany, the United Kingdom and the United States. **Table 2** provides details on their direct spending and tax deferral measures provided for

FIGURE 1: NATIONAL ECONOMIC PACKAGES FOR COVID-19, IMMEDIATE FISCAL MEASURES AND DEFERRALS, % OF GDP, AS AT APRIL 1



Note: Excludes sub-national government fiscal packages, and agency-provided liquidity supports & guarantees.

Source: National government press releases and media reports.

households and businesses. It also shows liquidity supports and credit guarantees provided by government agencies, however these are not included in the fiscal package totals.

CANADA'S ECONOMIC RESPONSE (AS AT APRIL 1, 2020)

To date, [Canada has announced fiscal support](#) totaling around \$190B, or about 8% of GDP. This is similar to several other national governments (**Figure 1**). Federal spending will be supplemented by provincial economic support packages (e.g., equivalent to around 3% of GDP in B.C.). Our analysis does not consider sub-national fiscal packages by any country.

The centerpieces of the federal government's package are the Canada Emergency Response Benefit (CERP), one-off extra payments through the Canada Child Benefit, the [Canada Emergency Wage Subsidy \(CEWS\)](#), interest-free loans and loan guarantees for qualifying businesses, and deferrals or rebates of taxes to households and businesses.

The CERP provides a taxable payment of \$2,000 per month for 4 months to individuals who must stop working (due to sickness, caring for others, quarantine, or having been stood down by their employer) and who are without pay or paid leave. The CERP also covers workers who are ineligible for employment insurance (EI).

The [CEWS](#) is intended to “help businesses keep and return workers to their payroll.” It will provide a 75% wage subsidy for the first \$58,700 of salary (up to \$847 per week) for up to 12 weeks, retroactive to March 15, for businesses and non-profit organizations experiencing a 30% year-on-year decline in revenue. An employer that has furloughed its employees and who are receiving the CERB would be ineligible for the CEWS. Businesses claiming the government’s erstwhile 10% wage subsidy for small and medium enterprises (SMEs) would see that deducted from what they can receive under the CEWS. Businesses that are no longer operating due to government-imposed restrictions and have thus laid off their employees will not qualify for either wage subsidy program.

Canada has opted to deliver the CERB and other benefits through Service Canada, while the Canada Revenue Agency (CRA) will deliver the CEWS. The efficacy of this approach will depend on these organizations’ ability to process huge numbers of

applications and efficiently dispense money to recipients. The Finance Minister has indicated that CEWS payments will take 3-6 weeks to process. In contrast, some other countries have opted for direct payments to households and businesses (e.g. United States), which might help recipients receive money sooner and with fewer bureaucratic hurdles.

Canada’s package provides no encouragement for business investment. In contrast, Australia’s national economic support package includes temporarily increased instant write-offs and accelerated depreciation for capital investments by SMEs.

Canada is currently providing little direct support for hard-hit industries or regions, other than the waiving of federal lease rents at 21 airports and Toronto Ports. By contrast, Australia has outlined specific funding to support the tourism, agriculture, air transport, education industries. The U.S. will directly support the airline industry and industries critical to national security.

The Bank of Canada has reduced its

policy rate to 0.25% and, for the first time, begun “quantitative easing” (**Table 1**). It has also introduced a wide range of new initiatives to maintain Canada’s “financial plumbing” through support for specific financial markets and providing extra liquidity and flexibility for financial institutions. The Bank of Canada’s response is comparable to other central bank responses in speed, scope and flexibility. The main difference (shared with the Bank of England) is that so far the Bank has not issued forward guidance about the future path of its policy interest rate, whereas the U.S. Federal Reserve, European Central Bank and Reserve Bank of Australia have done so.

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TABLE 1: **CENTRAL BANK RESPONSES TO COVID-19**

BANK OF CANADA	RESERVE BANK OF AUSTRALIA	EUROPEAN CENTRAL BANK	BANK OF ENGLAND	FEDERAL RESERVE
<ul style="list-style-type: none"> • 0.25% policy rate, no forward guidance • Quantitative easing, buying min \$5B per week of federal bonds across the yield curve, with forward guidance • Support for market function by conducting Government of Canada bond buybacks and switches, purchases of Canada Mortgage Bonds, banker’s acceptances, commercial paper and provincial money market instruments • Liquidity supports for FIs: lengthening terms, widening collateral requirements and expanding list of eligible institutions, standing term liquidity facility 	<ul style="list-style-type: none"> • 0.25% policy rate, with forward guidance • Quantitative easing to keep 3yr Treasury bond rate at 0.25% • AUD 90B funding facility to support bank lending to SMEs • Banks’ exchange settlement balances at central bank earn 0.1%, from 0% 	<ul style="list-style-type: none"> • -0.5% policy rate, with forward guidance • Quantitative easing through €870B in asset purchases in 2020 (Pandemic Emergency Purchase Program) • Looser collateral standards and capital requirements • Up to €870T liquidity refinancing made available at rates as low as -0.75% • Reduced capital buffers and easier collateral standards for FIs 	<ul style="list-style-type: none"> • 0.1% policy rate, no forward guidance • Quantitative easing, through £645 billion in purchases of gilts and sterling non-financial investment-grade corporate bonds • Various liquidity supports e.g. term contingent repo facilities, commercial paper • Reduced counter-cyclical FI capital buffers 	<ul style="list-style-type: none"> • 0-0.25% policy rate, with forward guidance • Quantitative easing, through the purchase of \$500 billion in treasuries and \$200 billion in mortgage-backed securities • Various credit and liquidity supports, e.g. money markets, commercial paper, term asset-back securities, corporate bonds, • Reduced FI capital buffers

TABLE 2: **COMPARING NATIONAL GOVERNMENTS' ECONOMIC PACKAGES***

CANADA <i>Announcements on March 13, 18, 23, 25, 30 & April 1</i>	AUSTRALIA <i>Announcements on March 12, 19, 22, 30</i>	DENMARK <i>Announcements on March 15, 20</i>	GERMANY <i>Announcements on March 9, 13, 23, 24, 27</i>	UNITED KINGDOM <i>Announcements on March 11, 17, 20, 26</i>	UNITED STATES <i>Announcements on March 6, 18, 26</i>
HOUSEHOLDS					
<ul style="list-style-type: none"> • \$24B Canada Emergency Response Benefit (CERB) provides a flat taxable benefit of \$2,000 per month for 4 months for workers who must stop working and are without paid leave/ income support, sick, quarantined, caring for others, including non-EI eligible workers • \$1.9B for a \$300 increase to Canada Child Benefit in 2019-20 • \$5B towards GST credit of \$400-600 for low income households • Personal tax filing date delayed to 1 June • \$190m for a 6-month interest-free moratorium on student loan repayments • Waived medical certificate requirement for EI sickness benefits • \$495m for a 25% reduction in minimum withdrawals from RRIFs in 2020 	<ul style="list-style-type: none"> • AUD 550 per fortnight supplement for income support recipients for 6 months • 2 x AUD 750 payments for other social security recipients (veterans, concession card holders) • Allow early withdrawals from superannuation (up to AUD 10,000 p.a. for 2 years) • 50% reduction in superannuation drawdown requirements for 2 years • Reduction in social security deeming rates 	<ul style="list-style-type: none"> • DKK 10 billion to provide an income to self-employed workers who lost their revenue • DKK 0.2 billion extended sickness and unemployment scope and benefit period • Deferral of tax payments 	<ul style="list-style-type: none"> • 6-month relaxed measures for accessing welfare payments include child allowance and income support • Tax deferrals 	<ul style="list-style-type: none"> • £10.5 billion to pay 80% of wages for employees unable to work • £3.8 billion Statutory Sick Pay (SSP) and SSP eligibility date change • Employment and Support Allowance and Universal Credit for self-employed people and employees below the Lower Earnings Limit • Tax filing extension 	<ul style="list-style-type: none"> • USD 600 billion direct payments of USD 1,200 per individual, USD 500 per child, USD 2,400 for couples. • USD 193 billion expanded unemployment benefits by USD 600 per week for 4 months • Emergency family medical leave at \$200 per day up to \$10,000 total • Deferred tax filing to October 15 2020 • USD 15.5 billion in additional funding for the Supplemental Nutrition Assistance Program (food stamps) • USD 0.8 billion to fund the emergency food assistance programmes • USD 69 billion student loan payment suspensions

* Excludes sub-national government packages.

Source: National government press releases and media reports.

TABLE 2: **COMPARING NATIONAL GOVERNMENTS' ECONOMIC PACKAGES* (CONT'D)**

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BUSINESS					
<ul style="list-style-type: none"> • \$71B Canada Emergency Wage Subsidy (CEWS) provides a 75% wage subsidy for the first \$58,700 of salary (up to \$847 per week) for up to 12 weeks for businesses or non-profit organizations showing a 30% year-on-year revenue decline • \$975m temporary 10% wage subsidy for SMEs • \$1B to expand work sharing program for workers facing reduced hours • \$55B for interest-free deferral of income tax payments until August 31, 2020 • \$33B for deferral of business payments of GST/HST and import duties until June 30, 2020 	<ul style="list-style-type: none"> • AUD 1,500 per fortnight wage subsidy for 6 months, paid to eligible large and small firms • Cash flow subsidy of AUD 20,000 to AUD 100,000 for SMEs and NFPs • Temporary increase in thresholds at which creditors can issue statutory demands • Increasing the instant write-off threshold for capital investments to AUD 150,000 for SMEs • Accelerated capital depreciation deductions (50% in first year) by SMEs until mid-2021 • 100% refund of wage tax withholding, through payments of AUD 20,000 to AUD 100,00 per SME • 50% wage subsidy for apprenticeships and trainees covering Jan-Sep 2020 	<ul style="list-style-type: none"> • DKK 40 billion to provide compensation to businesses including nationalization of private payrolls: 90% wage subsidy for hourly workers (up to DKK 26,000 per month), 75% wage subsidy for salaried workers (up to DKK 23,000 per month). Workers cannot work during furlough. • Small businesses facing 40% revenue loss are eligible for 80% cash flow assistance for corporate expenses e.g. rent, interest, leasing expenses • DKK 165 billion 30-day deferral of VAT payment and 4-month delay in labour tax remittances • DKK 10 billion for income to self-employed workers • DKK 1.7 billion government-paid sickness benefits, including self-employed • DKK 0.1 billion for business who cancelled large events 	<ul style="list-style-type: none"> • €100 billion to recapitalize and buy stakes in companies (does not include €33.65 billion in state funds to support struggling companies) • €10.05 billion employment measures • €3.1 billion per year 2021 to 2024 for additional investments in the private sector • Additional €500 billion tax deferral including €70 billion for direct corporate income tax • End the obligation to file for insolvency in such cases will be suspended until 30 September 2020 • Deferral of loan payments and utilities 	<ul style="list-style-type: none"> • £2.2 billion in grants for small businesses including • Refundable SSP benefits – 2 weeks, companies less than 250 employees are eligible as of Feb 28, 2020 • £1.2 billion tax relief: 100% for small businesses in 2020/21 which applies to about 900,000 entities; support pubs is £5,000 with a rateable value below £100,000. Local authorities fully compensated for these Business Rates measures • A tax cut for retail companies with a rateable value of less than £51,000 will be eligible for the tax holiday shops, cinemas, restaurants and hotels • Tax filing extension • £2,500 for self employed • £30 billion tax deferrals 	<ul style="list-style-type: none"> • Quarterly income tax payments delayed to October 15 • USD \$492 billion delay payroll taxes for employers for 2020 repaid over 2 years • Operating losses can be carried back up to 5 years • \$100 billion to fund national emergency declaration measures including sick pay at \$511 per day up to \$5,110 total per employee • \$50 billion in tax credit for retaining employees

* Excludes sub-national government packages.

Source: National government press releases and media reports.

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CREDIT					
<ul style="list-style-type: none"> • \$40B for SME loan and guarantee program • \$25B for Canada Emergency Business Account providing \$40,000 guaranteed interest-free loans for SMEs for 1 year, with the first \$10,000 forgivable for certain businesses • \$5.2B increase to credit facility for farmers through Farm Credit Canada (FCC) • \$500B+ credit and liquidity support provided by Bank of Canada, OSFI, CMHC and other commercial lenders 	<ul style="list-style-type: none"> • AUD 90B Reserve Bank funding facility to support bank lending to SMEs • AUD 15B government wholesale funding support for small non-bank lenders to SMEs • AUD 20B for 50% government guarantees of SME loans 	<ul style="list-style-type: none"> • DKK 60.7 billion extra credit available through an increase in the guarantees for small and medium-sized enterprises and large companies. Large businesses facing a 30% revenue loss can access 70% guaranteed government loans • DKK 1.3 billion supplementary credit for liquidity guarantees for medium and small export firms Denmark's Export Credit Agency • DKK 0.1 billion pool for initiatives to support large-scale redundancies of work • DKK 1.5 billion of state guarantees to the Danish Travel Guarantee Fund • DKK 1.5 billion for increased access to loans for students 	<ul style="list-style-type: none"> • €400 billion guarantees under the Economic Stabilization Fund • €50 billion to dispense bridging loans to small businesses and the self-employed • €553 billion to guarantee and subsidize loans through KfW 	<ul style="list-style-type: none"> • €330 billion in government-backed and guaranteed loans for businesses • £1 billion to support lending to SMEs through the Business Interruption Loan Scheme 	<ul style="list-style-type: none"> • USD 377 billion in forgivable loans for small businesses accessible by any business, private non-profit, or public non-profit organization with under 500 employees. • USD 500 billion in loans for larger industries at the discretion of the Secretary of the Treasury at interest rates based on U.S. Treasury securities of comparable maturity • Independent oversight and potential US government ownership via warrants, stock options, common or preferred stock, or other equity instruments • Caps for total compensation for any employee earning over \$425,000 pegged at 2019 pay

* Excludes sub-national government packages.

Source: National government press releases and media reports.

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SPECIFIC SECTORS, REGIONS, COMMUNITIES					
<ul style="list-style-type: none"> • \$331.4m waiving of federal ground lease rents for 21 airports and Ports Toronto • \$305m for indigenous communities • \$157.5m for homeless shelters • \$50m for women's shelters • \$9m for United Way support for seniors • \$7.5m for Kids' Help Phone counselling 	<ul style="list-style-type: none"> • AUD 1B for tourism, agriculture and education sectors • AUD 715m for airlines and airports 				<ul style="list-style-type: none"> • USD 32 billion passenger airlines wages and salaries • USD 8B for cargo airlines • USD 17B for businesses critical to national security • USD 425B for other businesses, states and municipalities • USD 150B for state and local governments
CANADA	AUSTRALIA	DENMARK	GERMANY	UNITED KINGDOM	UNITED STATES
TOTAL SUPPORT (includes direct measures and tax deferrals and excludes liquidity support and loan guarantees)					
CAD 190 Billion <i>8.2% of GDP</i>	AUD 213.7 Billion <i>10.7% of GDP</i>	DKK 221 Billion <i>9.3% of GDP</i>	€650 Billion <i>19% of GDP</i>	£60.5 Billion <i>2.8% of GDP</i>	USD 1.7 Trillion <i>8.9% of GDP</i>

* Excludes sub-national government packages.

Source: National government press releases and media reports.