Ottawa announces more support for businesses

March 27, 2020

- Ottawa to subsidize 75% of select small business wages for three months
- Federal Government also announces $65 billion in loans and guarantees for small– and medium-sized businesses
- Federal deficit likely close to $140 billion this year with new spending announced today
- More still to come for airlines and the energy sector next week

In the second round of large fiscal announcements this week, Prime Minister Trudeau announced significant support for small- and medium-sized businesses. The Government will boost the previously-announced small business wage subsidy to 75% (from 10%) for firms who suffer large revenue hits from COVID-19 but keep their staff. The government will also fund $25 billion in small business loans up to $40,000 for firms with payrolls between $50,000 and $1 million. These loans will be interest-free for the first year and forgivable up to 25% if repaid before the end of 2022.

The Government will provide for an additional $20 billion of lending by BDC and $20 billion in guarantees by EDC (in increments up to $6.25 million per firm), and defer another $30 billion in business taxes including the GST, HST and customs duties to keep cash in the hands of business owners. Finance Minister Bill Morneau also alluded to forthcoming targeted programs for airlines and the energy sector, which have been heavily impacted by the virus.

Coupled with Wednesday's extension of income support to furloughed employees, the measures appear aimed at reducing layoffs and maintaining strong links between employers and their workers. Indeed, in announcing the wage subsidy, Trudeau asked firms who had already laid off their workers to consider rehiring them.

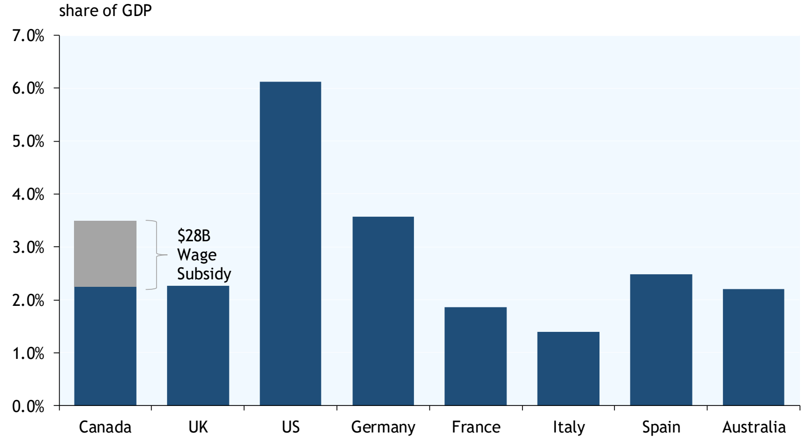
The announcements were light on details for the wage subsidy, and provided no costing. According to previously released Government documents, the original 10% wage subsidy program would have cost about $3.8 billion. At first blush, scaling this impact up to the now more generous parameters, the program could cost at least $28.5 billion. If wage subsidies amount to this lower bound, Canada will already be among the highest-spending advanced economies in terms of direct fiscal support for its economy. That said, which firms qualify for the subsidy and any limit on the subsidy per worker will greatly affect the program cost.

Other uncertainties abound: loan forgiveness from the newly announced small business lending program could also cost up to $6.5 billion and if the Bank of Canada purchases older, more expensive bonds in its QE program, the accounting recognition of these transactions could also add to the deficit.

Taken together, the potentially expansive cost of the programs announced today and the Bank's QE announcement bring the $200 billion deficit we highlighted on Monday even closer. From our

COVID-19 fiscal programs

share of GDP



Source: RBC Economics

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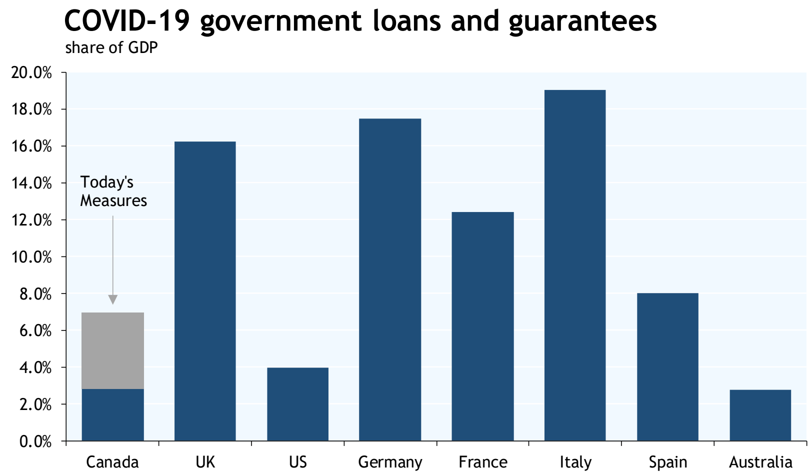
near term starting point of $110 billion, new spending today would add at least $28 billion which puts our estimate of the deficit close to $140 billion.

That said, the government could do more for larger businesses, some of whom have also been hit hard by the virus. Thus far, the focus has been on energy and airlines, but broader support might be necessary to address cash flow issues. International peers have announced expansive loan guarantee schemes which could help improve credit access for larger firms that still employ a meaningful number of Canadians and have, as yet, seen little support from the Government. Guarantees also reduce the cash demand of the government, which could be useful as expansive income support programs increase transfers from the government to Canadians.

For larger firms, loan forgiveness could also be tied to a policy goal: for example, for those who retain most of their workers, or those who make significant investments to reduce their carbon emissions. We hope targeted support for airlines and the energy sector will include such conditions. We look forward to hearing additional measures for airlines and the oil patch, as well as youth and at-risk populations, and the costing of those announced today.



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