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THE TREASURY

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# COVID-19 – A summary of the New Zealand response so far

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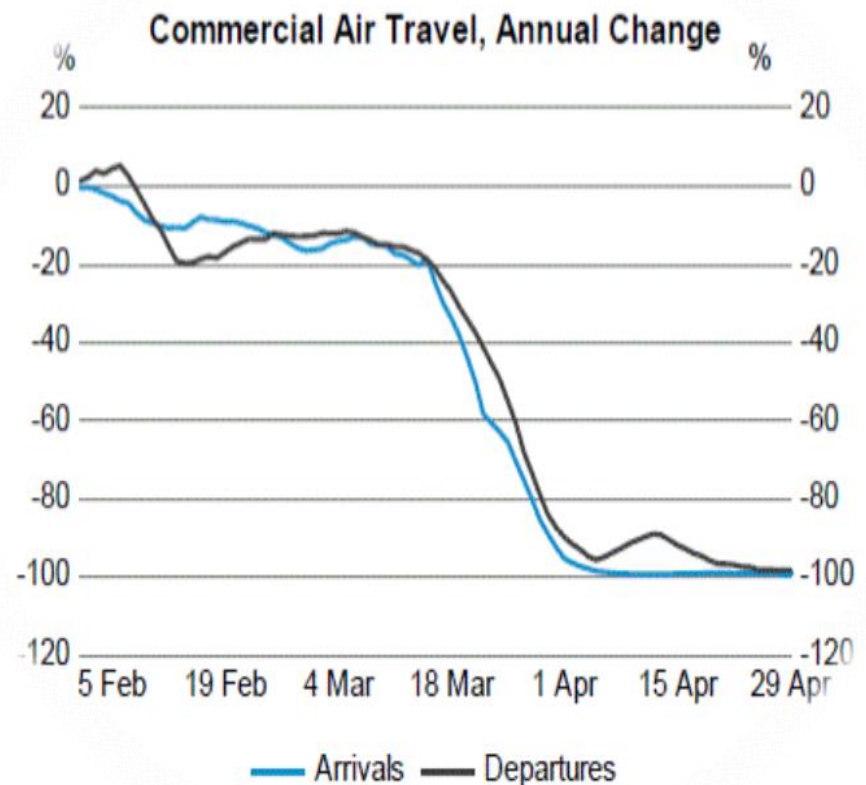
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# Key messages

- New Zealand expects the economy to be hard hit by the pandemic, like many other countries
- New Zealand's broad approach to the health and economic response - *“go hard, go early”*
- Health outcomes have been as good as could be expected – *2 imported cases yesterday first for 24 days*
- Substantial ongoing economic response led by fiscal policy has worked well to date
- Extreme uncertainty remains and further policy response will be required

# What we did – border measures

- New Zealand had an active border with an economy highly reliant on tourism and our export trade
- Progressive tightening of the border – culminating with 16 March 2020 border restrictions, compulsory self-isolation following travel, cruise ship restrictions
- Currently only New Zealand citizens and residents can enter and must go into Government-administered isolation or quarantine for 14 days,
- Some broadening now underway. Discussions underway on travel bubbles with Australia and Pacific



# What we did - Alert Level system introduced

## New Zealand COVID-19 Alert Levels

Unite  
against  
COVID-19

- These alert levels specify the public health and social measures to be taken.
- The measures may be updated on the basis of (i) new scientific knowledge about COVID-19 and (ii) information about the effectiveness of intervention measures in New Zealand and elsewhere.
- The alert levels may be applied at a town, city, territorial local authority, regional or national level.
- Different parts of the country may be at different alert levels. We can move up and down alert levels.
- In general, the alert levels are cumulative, e.g. Level 1 is a base-level response. Always prepare for the next level.
- At all levels, health services, emergency services, utilities and goods transport, and other essential services, operations and staff, are expected to remain up and running. Employers in those sectors must continue to meet their health and safety obligations.

**Estimated  
reduction in  
output from  
normal  
levels:**

LEVEL	RISK ASSESSMENT	RANGE OF MEASURES (can be applied locally or nationally)
<b>Level 4 - Eliminate</b> Likely that disease is not contained	<ul style="list-style-type: none"> <li>• Sustained and intensive transmission</li> <li>• Widespread outbreaks</li> </ul>	<ul style="list-style-type: none"> <li>• People instructed to stay at home</li> <li>• Educational facilities closed</li> <li>• Businesses closed except for essential services (e.g. supermarkets, pharmacies, clinics) and lifeline utilities</li> <li>• Rationing of supplies and requisitioning of facilities</li> <li>• Travel severely limited</li> <li>• Major reprioritisation of healthcare services</li> </ul>
<b>Level 3 - Restrict</b> Heightened risk that disease is not contained	<ul style="list-style-type: none"> <li>• Community transmission occurring OR</li> <li>• Multiple clusters break out</li> </ul>	<ul style="list-style-type: none"> <li>• Travel in areas with clusters or community transmission limited</li> <li>• Affected educational facilities closed</li> <li>• Mass gatherings cancelled</li> <li>• Public venues closed (e.g. libraries, museums, cinemas, food courts, gyms, pools, amusement parks)</li> <li>• Alternative ways of working required and some non-essential businesses should close</li> <li>• Non face-to-face primary care consultations</li> <li>• Non acute (elective) services and procedures in hospitals deferred and healthcare staff reprioritised</li> </ul>
<b>Level 2 - Reduce</b> Disease is contained, but risks of community transmission growing	<ul style="list-style-type: none"> <li>• High risk of importing COVID-19 OR</li> <li>• Uptick in imported cases OR</li> <li>• Uptick in household transmission OR</li> <li>• Single or isolated cluster outbreak</li> </ul>	<ul style="list-style-type: none"> <li>• Entry border measures maximised</li> <li>• Further restrictions on mass gatherings</li> <li>• Physical distancing on public transport (e.g. leave the seat next to you empty if you can)</li> <li>• Limit non-essential travel around New Zealand</li> <li>• Employers start alternative ways of working if possible (e.g. remote working, shift-based working, physical distancing within the workplace, staggering meal breaks, flexible leave arrangements)</li> <li>• Business continuity plans activated</li> <li>• High-risk people advised to remain at home (e.g. those over 70 or those with other existing medical conditions)</li> </ul>
<b>Level 1 - Prepare</b> Disease is contained	<ul style="list-style-type: none"> <li>• Heightened risk of importing COVID-19 OR</li> <li>• Sporadic imported cases OR</li> <li>• Isolated household transmission associated with imported cases</li> </ul>	<ul style="list-style-type: none"> <li>• Border entry measures to minimise risk of importing COVID-19 cases applied</li> <li>• Contact tracing</li> <li>• Stringent self-isolation and quarantine</li> <li>• Intensive testing for COVID-19</li> <li>• Physical distancing encouraged</li> <li>• Mass gatherings over 500 cancelled</li> <li>• Stay home if you're sick, report flu-like symptoms</li> <li>• Wash and dry hands, cough into elbow, don't touch your face</li> </ul>

**40%**

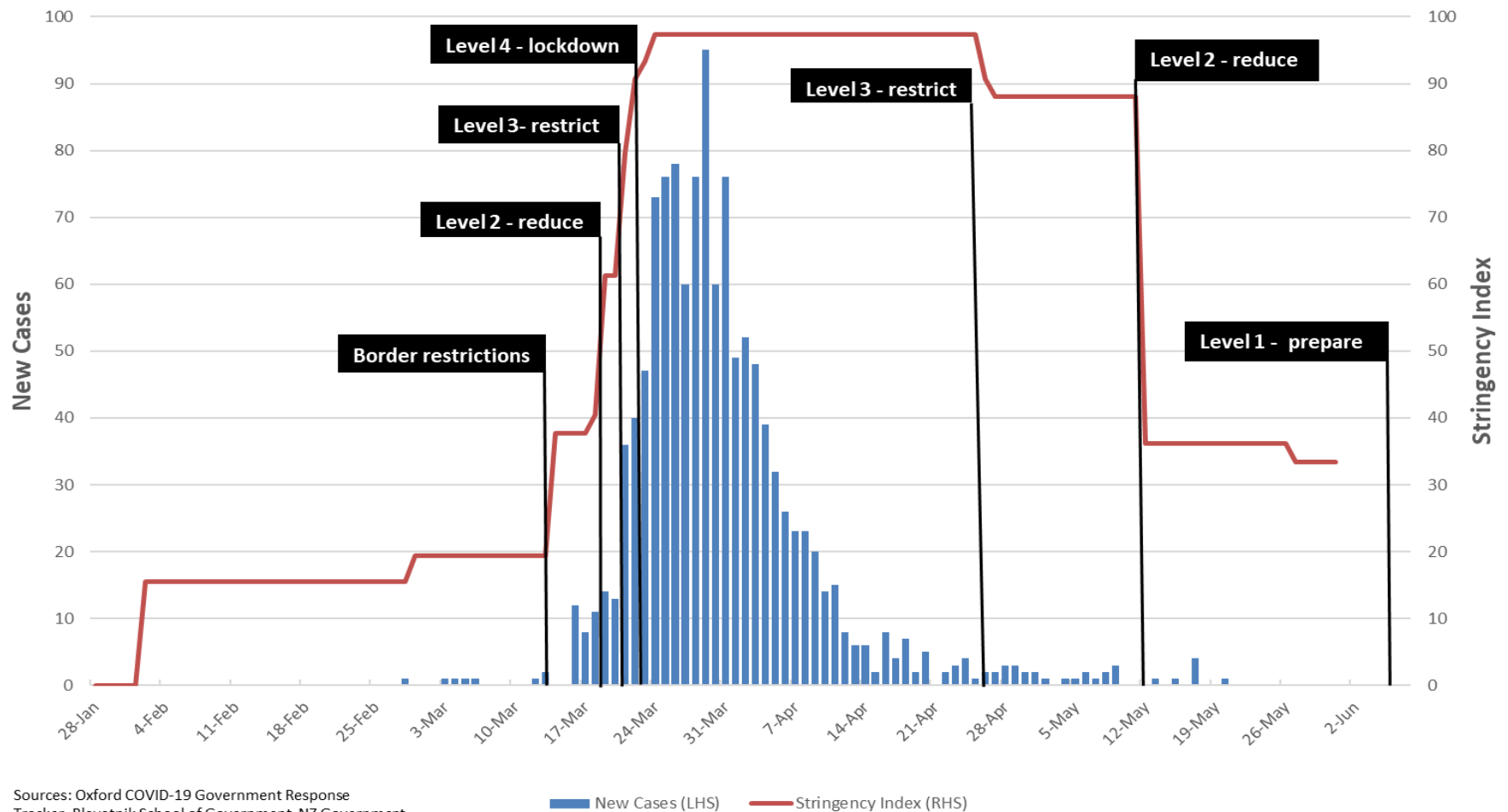
**25%**

**10-15%**

**5-10%**

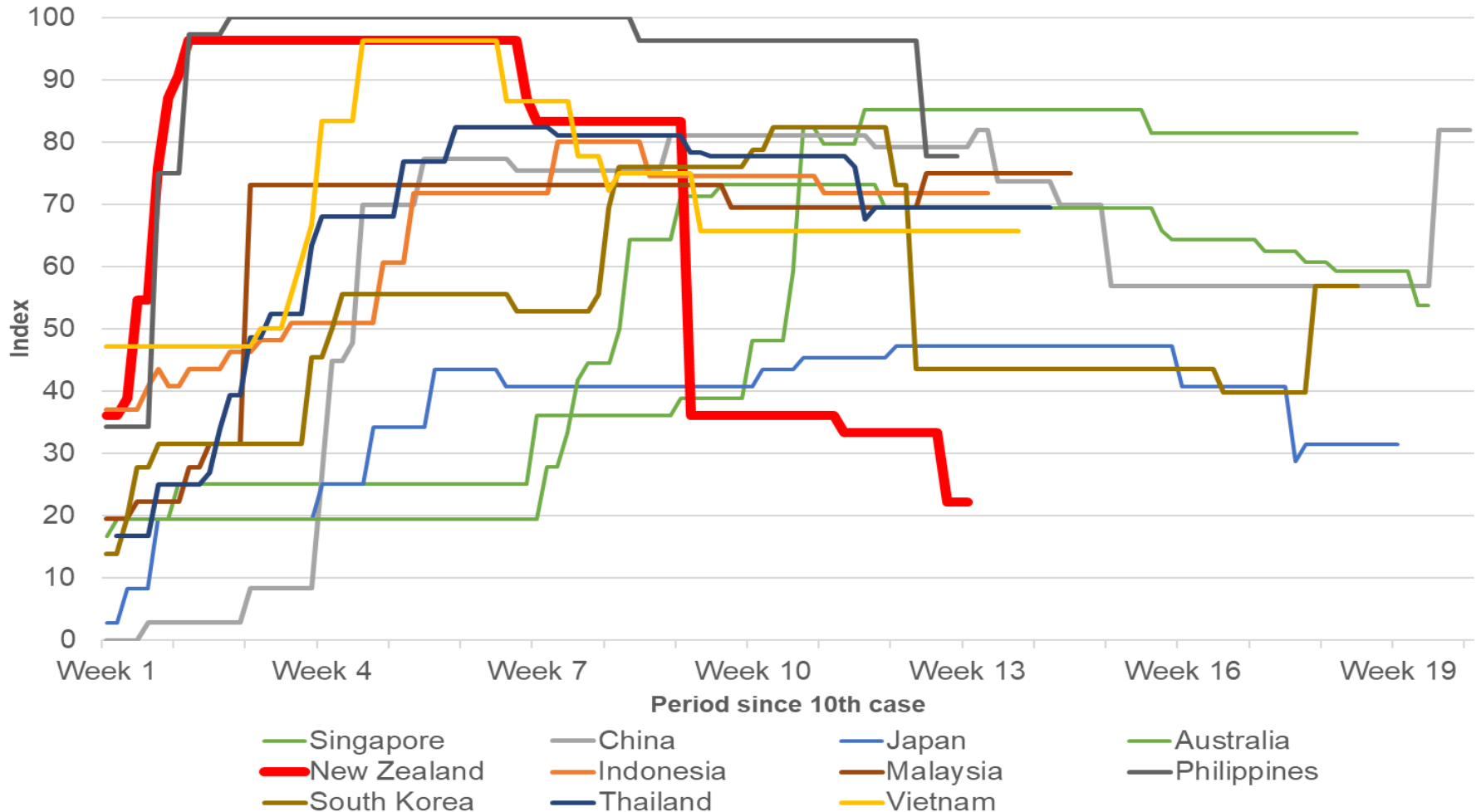
# What we did – go hard and go early

## New COVID-19 Cases and Stringency Index



# How NZ's lockdown compares

## Government Response Stringency Index



# NZ's Economic Response

- Unprecedented public health shock
- Treasury modelling indicates a substantial impact in June quarter – public [dashboard](#) of economic indicators updated weekly
- Most commentators forecasting larger recession than 2008/09 Global Financial Crisis
- Three ‘waves’ of economic response to COVID-19
  - Wave One: Fight the Virus, Cushion the Blow
  - Wave Two: Kick starting the Recovery
  - Wave Three: Resetting and Rebuilding the Economy



# Multi-dimensional wellbeing impacts



## Current wellbeing



**Civic engagement and governance**



**Housing**



**Time use**



**Cultural identity**



**Income and consumption**



**Safety and security**



**Environment**



**Jobs and earnings**



**Social connections**



**Health**



**Knowledge and skills**



**Subjective wellbeing**



## Future wellbeing

### Natural capital

- Falls in net greenhouse gas emissions could marginally reduce the costs of meeting international commitments.
- Firms or households may be less able to make investments to improve environmental performance.

### Financial and physical capital

- Under-utilised physical capital and potentially stranded assets.
- Households will experience wealth loss from declines in house values and in the value of financial assets. Net public debt is forecast to more than double.

### Human capital

- Disruption to learning will reinforce existing inequalities.
- Decline in skills from labour force detachment and loss of relevance of firm- or sector-specific skills, with wider variability in impacts.
- Possible negative impact on life expectancy.

### Social capital

- High levels of social capital helping with the response.
- Risk of distributional impact and capacity constraints on public services eroding social capital.
- Potential for groups who already experience discrimination, particularly Asians, to feel more isolated.

Population groups particularly vulnerable to negative impacts are Māori and Pacific People, children, young and old people, low income or socially disadvantaged (including refugees and migrants), disabled people and women.

# Wave One: Fight The Virus and Cushion the Blow

- Applying three key principles to our COVID response
  - Act swiftly, with no regrets
  - Improve cash flow and confidence
  - Act in coordination to secure and support our financial and business sector
- In the period to March 17<sup>th</sup> the economic relief package was valued at approximately 7%-8% of GDP (*next slide*)
- Helped by our strong macroeconomic and fiscal institutions and low debt position

## COVID-19 Economic Package at a Glance

# He Waka Eke Noa

We Are All Working Together

We are working across government, and particularly closely with the Reserve Bank, Ministry of Business, Innovation and Employment, the Ministry of Social Development, and Inland Revenue.

Our advice aims to cushion whanau and families, workers, businesses and communities against COVID-19's impacts, position New Zealand for recovery, and help us to reset and rebuild our economy to support long-term recovery.

**Businesses** are being helped by **\$2.8 billion** in business tax changes, including an increase in the provisional tax threshold, writing off interest on late tax payments, bringing forward R&D refundability and reintroducing depreciation charges for commercial buildings. An initial **\$600 million** is being spent on support for the aviation industry, to protect our supply chains, and a **\$900 million** low interest loan is being provided to Air New Zealand.



### Keeping workers connected to their jobs:

An estimated **\$12.2 billion** wage subsidy scheme is helping to keep workers connected to their jobs. The scheme has rolled up an earlier sick leave scheme and has also been extended to provide sick leave for essential workers who are vulnerable, sick or otherwise unable to work, so they can isolate at home.



**Health:** An initial allocation of **\$500 million** was made to the health sector.

**Māori and Pasifika:** \$40 million of this funding has been directed to support Māori communities, along with a further \$16.5 million reprioritised from other funding sources. This package is aimed at helping cushion Māori communities and businesses from the health and economic impacts of the virus. A further \$17 million has been directed to bolstering the Pasifika health response.

Tariffs on medical and hygiene imports needed for the pandemic response have been temporarily removed.

**Businesses** are being supported by a **\$6.25 billion** Business Finance Guarantee Scheme, with the government bearing 80% of the risk of these loans and banks the rest. Supporting this scheme, the RBNZ has introduced the Term Lending Facility for banks, providing low interest funding for up to three years.

**Insulating our most vulnerable:** A **\$2.8 billion** increase in benefit payments has lifted core benefit payments by \$25 (gross) per week, and doubled the winter energy payment (to \$1400 (gross) for couples, \$900 (gross) for singles). The In-Work Tax Credit threshold has been removed.

### Community groups providing social services:

A **\$27 million** package is helping community groups to bolster essential services, support disabled people in lock-down, and strengthen local resilience.



### Homeowners and small-medium sized businesses:

A support package for homeowners and businesses includes a six-month interest and principal payment deferral for mortgage holders and SMEs who have lost income because of the economic disruption caused by the virus. The RBNZ will help banks to put this scheme in place with appropriate bank capital rules.



**Businesses** facing insolvency due to COVID-19 are being supported to remain viable and keep people in jobs, through temporary "safe harbour" changes to the Companies Act. Other changes include being able to "hibernate" debts, allowing electronic signatures, and temporary extensions to filing deadlines and compliance requirements.

**Businesses** and particularly small-medium sized businesses affected by COVID-19 will also benefit from greater flexibility in statutory tax deadlines. Changes to the tax loss continuity rules, a tax loss carry-back scheme, measures to support commercial tenants and landlords, and further business consultancy support have also been announced.



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More Treasury COVID-19 economic information and commentary at [treasury.govt.nz/covid-19](https://treasury.govt.nz/covid-19)

More information on government initiatives at [www.beehive.govt.nz](https://www.beehive.govt.nz)

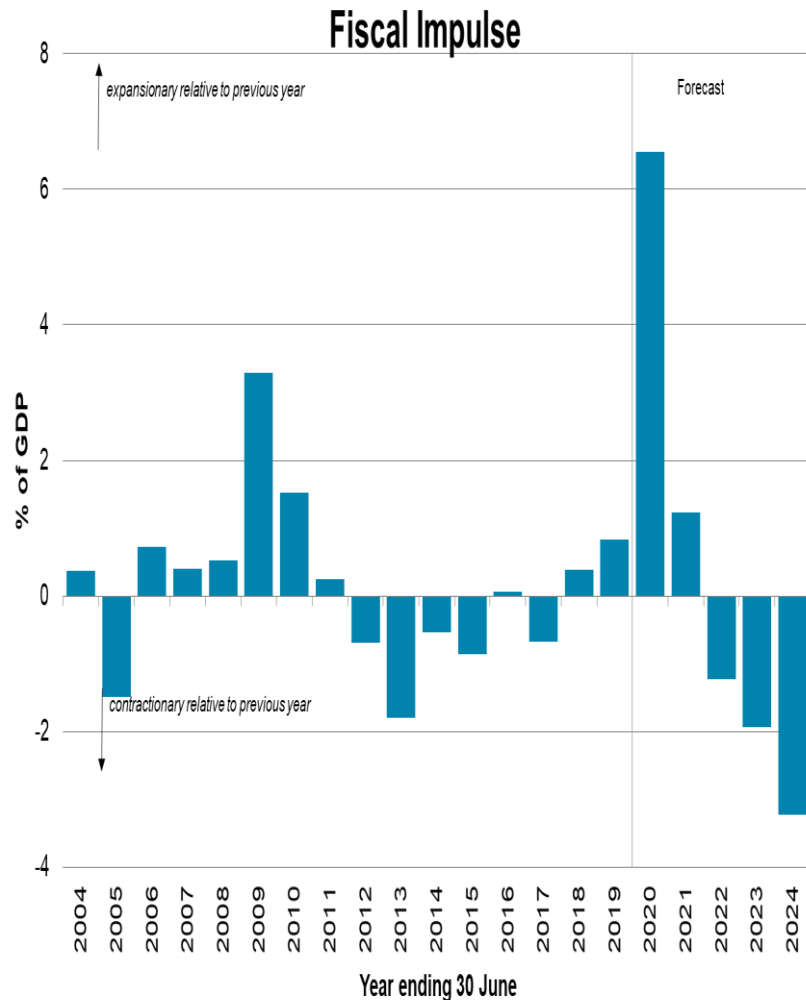
More information on government financial support at [www.covid19.govt.nz](https://www.covid19.govt.nz)

Prepared by the Treasury and released on 15 April 2020 at <https://treasury.govt.nz/covid-19-economic-response-package>  
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New Zealand Government

# The macro picture

## Fiscal policy

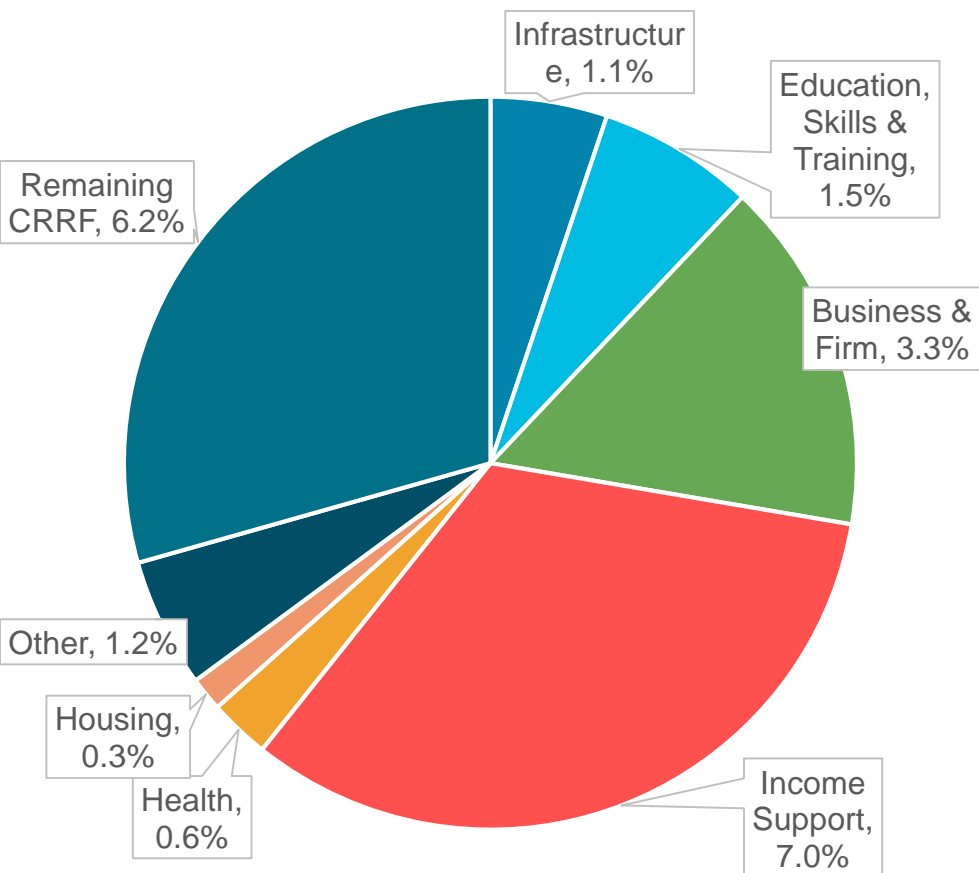


## Monetary policy

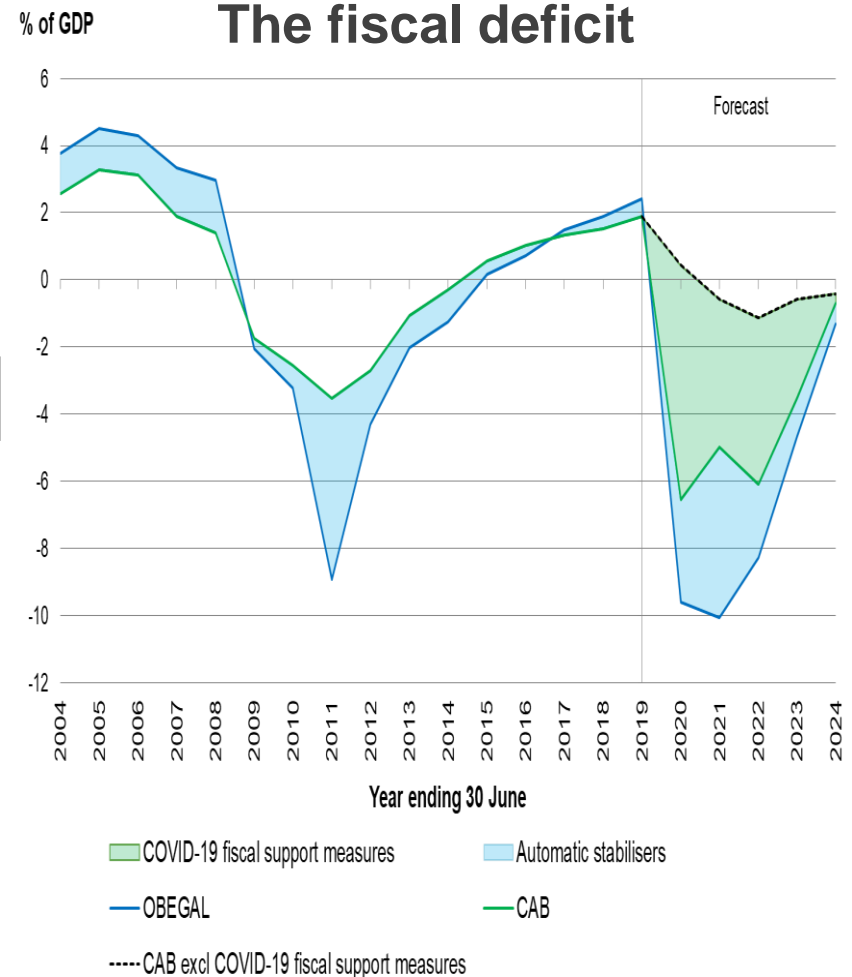
- OCR cut to 0.25% (from 1.00%), with forward guidance
- QE – up to 50 percent of NZGB
- Liquidity support
- LVR removal
- Delayed banks' capital increase
- Mortgage loan deferral scheme
- FX Swap lines
- Removed tiering on exchange settlement account system

# COVID-19 Response and Recovery Fund (CRRF)

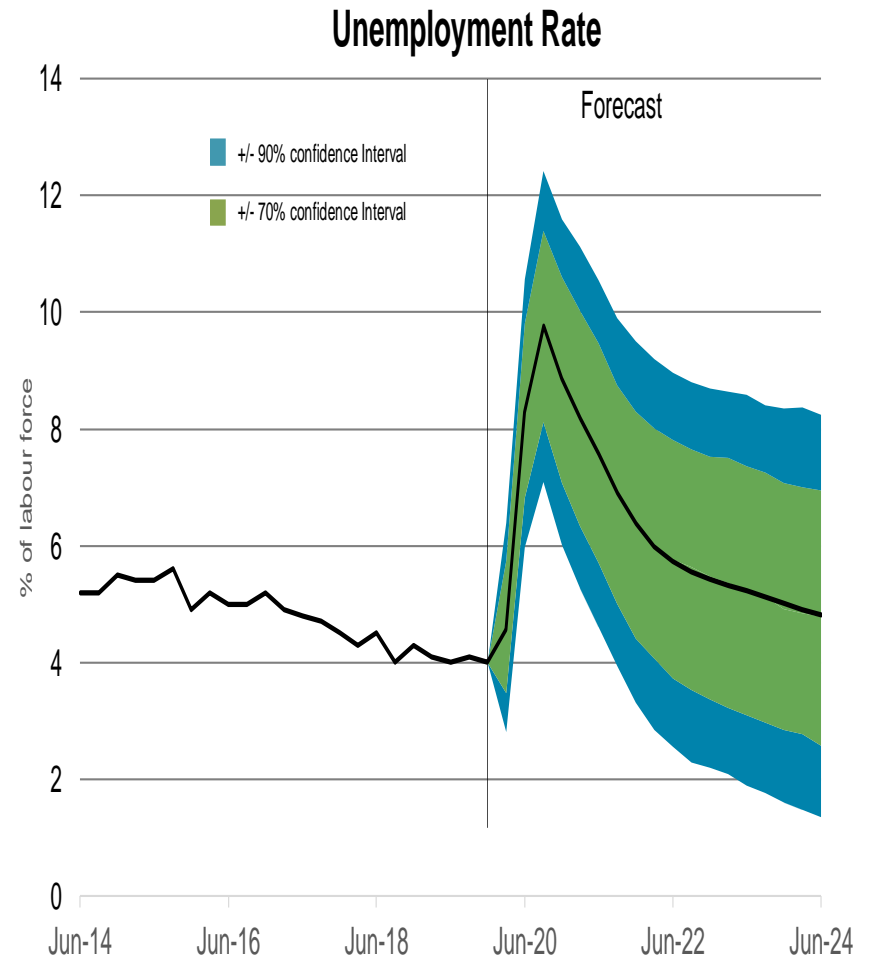
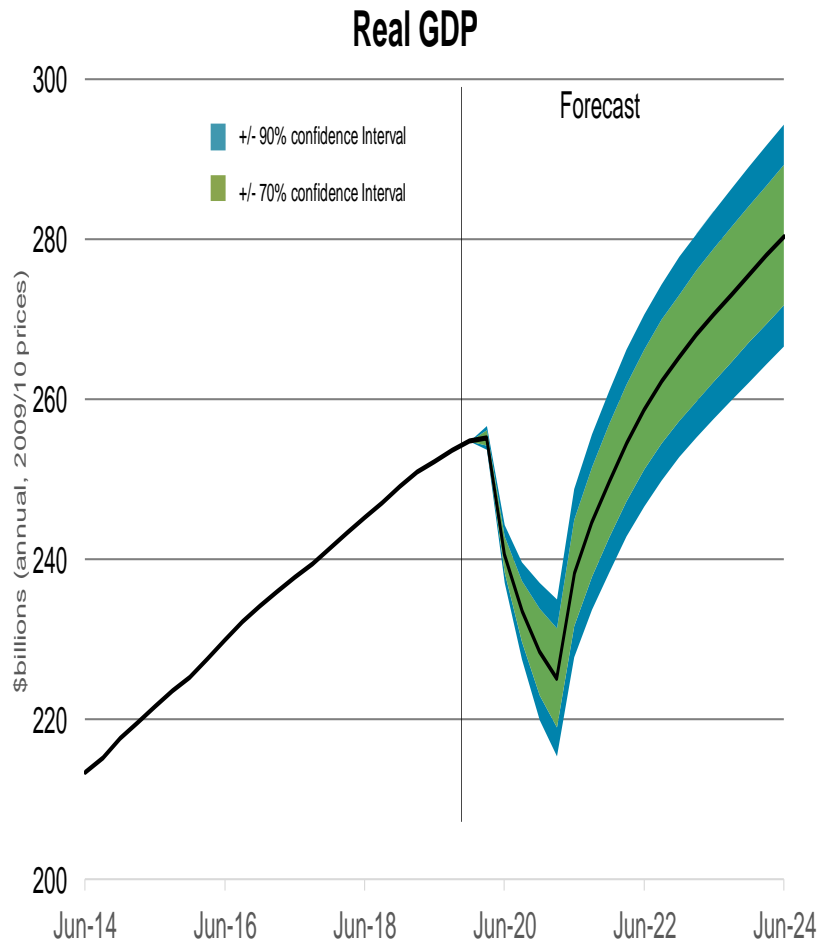
## COVID-19 funding (% of GDP)



## The fiscal deficit



# Economic Outlook

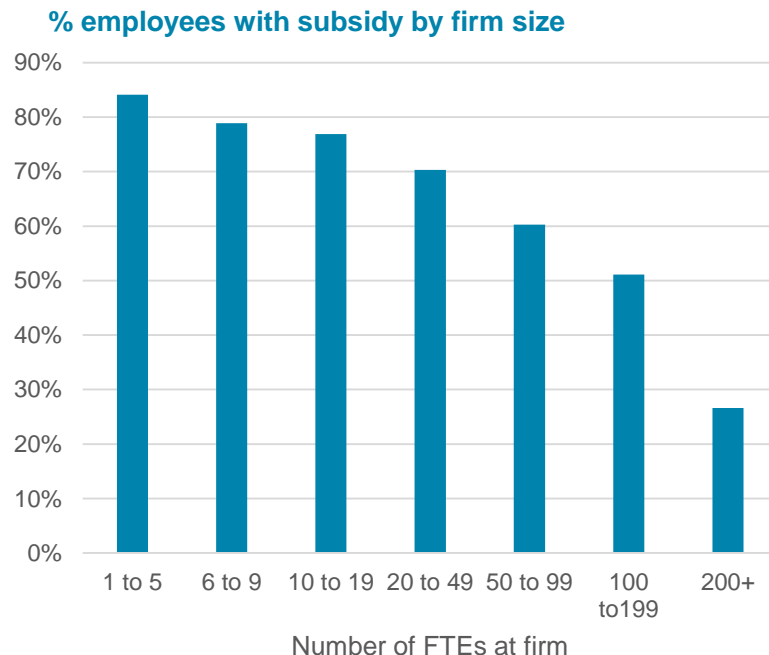


# Overview of household support measures

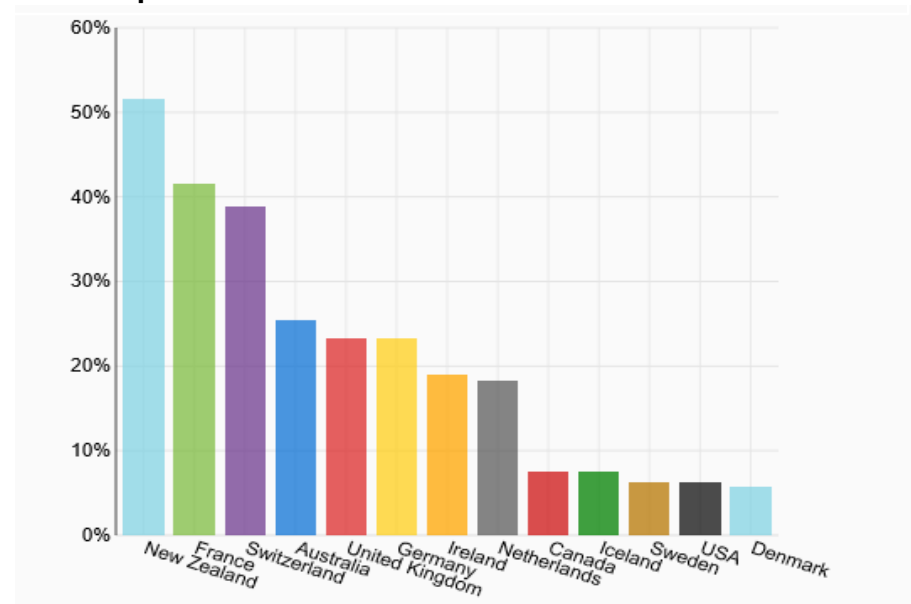
Measure		Duration	Impact
Transfers	Income support system (benefits, tax credits)	Permanent	300,000+(tbc) main beneficiaries 390,000 (tbc) WFF recipient
	Wage subsidy	Ends in Sept	\$12bn + \$3.2bn extension. Supported 1.6m jobs in first phase.
	Covid Income Relief Payment (payment to individuals who lose their job)	Ends in Oct	\$570m this year, 230,000 eligible
	Leave scheme (payment to workers who need to stay home from work)	Termination date TBC – likely to continue during L2	\$1.4m so far. 4,055 employers and sole traders have applied.
	Permanent benefit increases	Ongoing	c.\$500m p.a.
Regulation	Winter Energy Payment doubled for 2020	1 May-1 Oct	\$480m this year, 300,000+ main beneficiaries, 740,000+ NZS/VP
	Rent freeze & tenancy protection	3/6 months respectively	Has provided temporary protection, but households have accrued rent arrears
	Mortgage deferral (up to 6 months)	Temporary	Provided temporary income support, but capitalised into mortgages

# Case Study: Wage Subsidy scheme

- In April, JobSeeker recipients rose by 40,000, roughly matching the decline in filled jobs, and many more people worked significantly fewer or zero hours



Change in workers receiving aid through employer since start of pandemic as share of workforce



Brookings, The effect of COVID on international labor markets



# Lesson and challenges

- Effective in preserving employment and firms from failure to data
- Wage subsidy largest proportion of front-loaded support
- Operational feasibility and speed critical – high trust model
- Expand existing channels rather than create new ones
- Exit will be a challenge – looking to design exit strategy

# Overview of business support measures to date

	Fiscal costs millions	Overall liability
Sector support	787	
Depreciation for building and expensing	2807	
Other tax measures	2190	
R&D	393	
Export Support	216	
Training	100	
Business Finance Guarantee scheme	538	5000
		5200
Small Business Cash Flow loan	3400	
Total	10,431	10,200
Percent of GDP	3%	3%

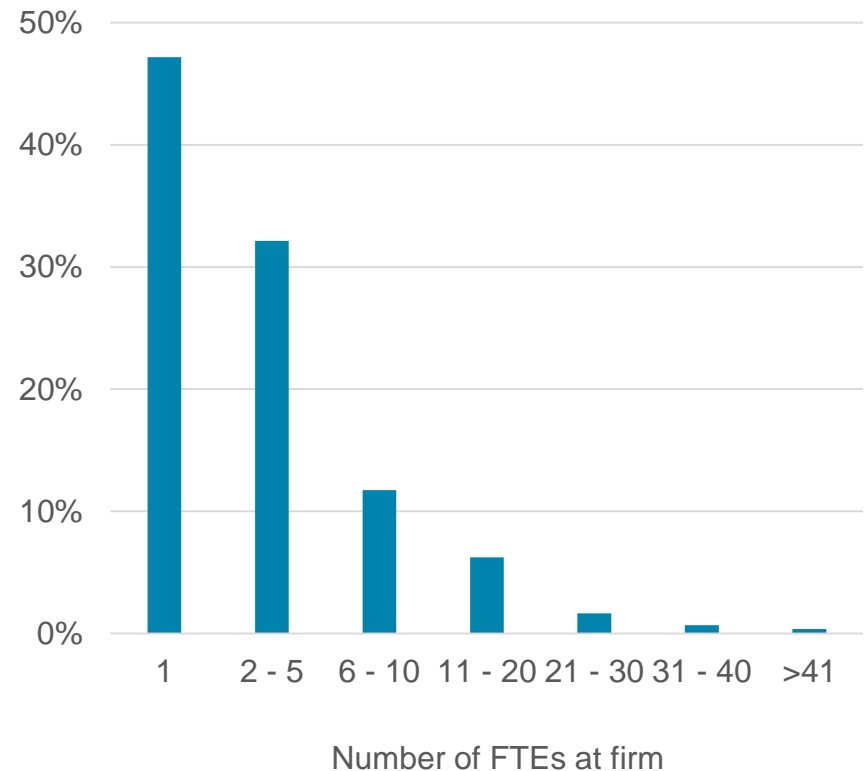
# Case Study 2: Small Business Cashflow (Loans) Scheme

*Objective:* Immediate cash flow support to address the risk of widespread business failures among SMEs.

*Key features:*

- SBCS scheme is available for businesses with up to 50 employees.
- Businesses access up to \$10,000 + \$1,800 per employee, up to a \$100,000 loan cap.
- Loans interest free if repaid within a year, and will otherwise accrue 3% interest over a 5 year term. Debt will be unsecured and non-preferential
- Uptake originally expected to be around \$5.2 billion at a fiscal costs of \$3.4 billion.
- In relation to the SBCS, as at 15 June (77,758 applications. \$1.4 billion has been disbursed to 83,291 customers with an average loan of \$16,928.

Number of firms who have been paid out by loan scheme by FTE Band (%)



# Lesson and challenges

- New program: reflected concerns with impact of SME guarantee (BFG) implemented from March
- Implementation of cash flow loans: Through the tax authorities. Allowed for quick disbursement and wide reach
- Less concessional than other countries: Uptake lower-than-forecast
- Concerns in business community about banks ability to support SME lending in the recovery

# Wave Two: Position for Recovery

- We are positioning the economy for recovery as New Zealand has moved down the alert levels
- Continued focus on supporting 'hardest hit' people and places
- Working on managing health risks and opening up flows of people.
- Developing options for exit strategy to support growth and reallocation
- Government is managing in extreme uncertainty and is facing an upcoming General Election
- Likely to need some form of fiscal support as emergency support is scaled back
- Some sign that the economic shock may be less severe than we expected in March – but still very large

# Wave Three: Resetting and Rebuilding

- Opportunity to reset economy, and address some long-standing challenges
- Must chart a course back towards a sustainable fiscal position – but balance with rebuilding other capitals and questions of fairness
- We will be tackling big questions about our economy:
  - What should we make and do here in New Zealand to ensure our sustainability?
  - How do we trade with the rest of the world in this new environment?
  - How will the financial system, both here and globally, cope?

# Other supporting policy

- Keep trade flowing and supply chains intact
- Trade Recovery Strategy
  - Supporting exporters
  - Reinvigorating the international trade architecture
  - Refreshing key trade relationships
- Overseas Investment
  - Temporary safeguards, early implementation of new National Interest test and simplified screening
- Other
  - Fast-tracked approval for infrastructure

# Where are we and what's next?

- Have moved through alert levels more quickly than expected
  - everyday life, activity essentially back to pre-COVID-19 norms, BUT border still essentially closed
- Still expect big hit to GDP in Q2, still uncertainty about pace of recovery
- Economic response is increasingly focussed on recovery, including exit from extraordinary measures
  - What does the economy look like in the future?
  - How do we allow jobs and capital to shift while maintaining social cohesion?
  - When do we rebuild fiscal and monetary policy buffers, and over what time frame?



Thank You!

Questions and Discussion