20 March 2020

The Big Picture

Global fiscal and monetary responses to COVID-19

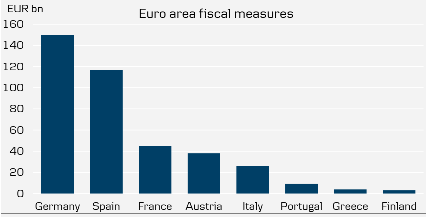
Since our *last update on Wednesday morning* of global fiscal and monetary policy responses to the spread of COVID-19, we have seen a few notable developments:

- **In Europe, more fiscal policy packages have been announced by countries and existing packages been fortified.** Spain unveiled a EUR117bn – 9% of GDP – package (with private investment set to add another EUR83bn), that includes EUR100bn of state guarantees and EUR17bn of direct aid to firms affected by the lockdown. In Germany, the government has continued to shy away from similar lockdown measures as in other European countries, but many self-employed and SMEs are already seeing their livelihoods endangered. Hence, the government is working on a EUR40-50bn 'solidarity fund' that could provide direct funds to these SMEs that otherwise do not qualify for the liquidity measures provided through KfW. As the solidarity fund will be set up as a federal special fund that can borrow independently from the government, but benefits from the same federal credit rating (and hence cheap borrowing costs), it implicitly also means an end to Germany's long-enshrined balanced budget policy ('black zero'). All in all, euro area countries have so far committed to fiscal and liquidity measures of some 3% of GDP in 2020 on average.
- On Wednesday, the ECB held an emergency meeting to address the financial market fragmentation and massive spread widening (in particular led by Italian and Greek yields). The ECB decided to go 'all in' with a Pandemic Emergency Purchase Programme (PEPP) with an overall envelope of EUR750bn, to be done in all asset classes under the APP. The EUR750bn will be implemented until end-2020 in a flexible manner. The EUR750bn comes on top of the normal APP and the EUR120bn envelope decided last week and regular QE. That means the ECB will buy around EUR111bn / month on average for the remainder of the year. **Our takeaway is that the ECB has removed the credit risk and as such will help as the backstop. European government bonds reacted positively on the news in a sign of credibility of the forceful action**. This bold package will enable governments to pursue a very expansionary fiscal policy, see *Emergency meeting - all in with EUR750bn package.*
- Since the Fed went all in on Sunday, cutting its target range down to 0%, it has announced further programmes to inject liquidity into the financial market. The Fed has re-launched its Primary Deal Credit Facility (PDCF), Commercial Paper Funding Facility (CPFF) and Money Market Mutual Fund Liquidity Facility (MMMFLF).
- With the US Congress close to approving the second emergency spending package, the negotiations on third are about to start. The Trump administration has proposed a package of up to USD1,200bn, consisting of emergency loans to businesses and direct payments to Americans. We think it is positive that Trump has thrown away the idea of tax cuts, as his new proposal is more acceptable for the Democrats.

Other reading

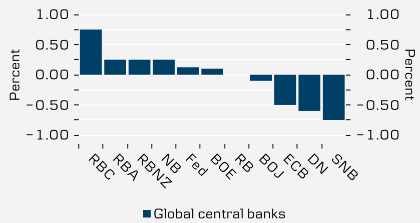
- *Coronavirus COVID-19 Update*
- *Nordic Research - Policy response measures in the Nordic countries*
- *The corona crisis - A global recession but not for long*

Euro area countries have committed to fiscal and liquidity measures of some 3% of GDP in 2020 on average



Source: *Various government sources, Danske Bank*

Global policy rates are close to or at historical lows



Source: Macrobond Financial, Danske Bank

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- The UK government has pledged GBP300bn in government-backed loans and guarantees to shield businesses from the coronavirus crisis. The BoE has cut its bank rate by an additional 15bp to 0.1%, which is a new low, and restarted its QE programme buying for an additional GBP200bn of UK bonds.
- **We have also seen new measures in the Nordic countries.** In Denmark, we have seen new fiscal measures to support smaller companies and self-employed min particular. In Norway, Norges Bank has introduced a new F-loan with maturities up to 12 months and a rate cut of 75bp. Danmarks Nationalbank, Norges Bank and Sveriges Riksbank have established USD swap facilities with the Federal Reserve to manage the strained market situation for short-term borrowing in US dollars. Finally, after the strong sudden depreciation of the NOK, Norges Bank said it would be ready to intervene in the FX market to support the currency. Danmarks Nationalbank hiked its policy rate by 15bp due to the EUR/DKK being on the weak side of the parity level and recent outflow. For more, see Nordic Research: Policy measures in the Nordic countries, which we updated this morning. *http://bit.ly/Nordic_policy_response*
- **On the regulatory side, banks have been granted forbearance to draw on capital and liquidity buffers in several countries**. This pertains first and foremost to counter-cyclical capital buffer requirements that have been reduced to zero, but several countries are taking further measures, and within the banking union the ECB has also allowed for a temporary relaxation of, for example, the Pillar 2 Guidance and the Capital Conservation Buffer. At the time, several jurisdictions are allowing banks to draw on their liquidity buffers. Another hot topic is banks' provisioning for loan losses in the current situation. Recently implemented accounting rules (IFRS 9) imply a greater need for upfront provisioning as the economy sours, which is likely to weigh significantly on banks' capital levels in the coming quarters. Moreover, there are concerns are that by extending grace periods to certain clients, banks would be forced to classify loans as non-performing, thus requiring further provisioning. While last week's ECB/SSM statement highlighted the flexibility provided to supervisors in dealing with non-performing loans, we note media reports (e.g. Bloomberg and Global Capital) suggesting that measures to offer banks more leeway on provisioning are being discussed.

Global fiscal policy responses to coronavirus

Country	Measures	Size	Funding
EU	• Maximum flexibility on budget and state aid rules • 'Corona Response Investment Initiative' to support health care efforts, SMEs & vulnerable sectors • Stepped up EIB lending to SMEs	EUR 45bn (0.3% of GDP)	EIB, EU budget & structural funds
Italy	• Help for workers facing temporary layoffs • Boosting guarantee fund for SME loans • Moratorium for business and personal mortgage repayments • One-off payment of EUR500 for self-employed and cash bonus for Italians still working, financial support to families	EUR 26bn (1.5% of GDP)	Government debt
Germany	• Direct support for self-employed and SMEs (up to EUR50bn) through 'solidarity fund' • Liquidity measures for affected companies (KfW credit & state guarantees - EUR93bn but up to EUR500bn) • Easier access to short-term work compensation ('Kurzarbeit') • Deferred tax payments for companies	Approx. EUR 150bn (4.4% of GDP), but implicitly open-ended	Budget reserve + EUR 26bn (0.7% of GDP) reserves in Federal Employment Agency + Borrowing through solidarity fund
France	• EUR1bn solidarity fund to help affected businesses • Extended deadlines for social security and tax payments, credit guarantees and sick leave payments for caring for children • Short-time working scheme, under which state will cover entirety of lost salaries	EUR 45bn (1.9% of GDP)	Government debt

Source: Various government sources, Danske Bank

Global fiscal policy responses to coronavirus (cont'd)

Country	Measures	Size	Funding
Spain	• Public guarantees (EUR 100bn) and deferred tax payments for SMEs • Moratorium on mortgage payments • Specific measures for tourism & transport sectors • Rebates on social security for fixed contracts for February-June	EUR 117bn (9.4% of GDP)	Government debt
Austria	• Liquidity measures and loan guarantees as well as tax deferrals • Labour subsidies for companies that have to reduce working hours • Aid for one-person and family-owned enterprises, tourism and cultural sectors	EUR 38bn (9.5% of GDP)	Government debt
Portugal	• Credit lines for affected businesses and tax deferrals • Possible moratorium on capital and interest payments	EUR 9.2bn (4.3% of GDP)	Government debt
Greece	• Suspended tax and social security payments for 4 months for all businesses directly affected by coronavirus outbreak (on pre-condition that companies don't cut staff) • EUR800 bonus for employees unable to work due to outbreak • Sales tax cut to 6% from 24% for products needed to prevent coronavirus transmission • Businesses and workers directly hit by outbreak will be allowed to pay only 60% of their rent in March and April • State to pay all outstanding obligations to citizens	EUR3.8bn (2.0% of GDP)	Government account + EU Corona Response Investment Fund
UK	• GBP3K cash grant for SMEs • State pays for 14 sick days • Coronavirus Business Interruption Loan Scheme • Business rates will be abolished for smaller firms • Government-backed loans and guarantees (GBP300bn)	GBP 312bn (14% of GDP)	Government debt
Denmark	• Schemes where government pays up to 90% of wage for 3 months for workers who are sent home, covers income for self-employed, helps to cover fixed costs • Extend deadlines for payroll taxes and VAT (credit, not fiscal easing) • New CB lending facility • Release of countercyclical buffer • Government payment for sick leave from day 1 • Government guarantee for some corporate debt and airlines • Schemes where government pays up to 90% of wage for 3 months for workers who are sent home, covers income for self-employed, helps to cover fixed costs • Slightly easier access to reduced work time support	Fiscal: DKK 56bn (2.4% of GDP) Credit: Up to DKK 225bn (9.8% of GDP)	Government account and new debt
Sweden	• Businesses will be offered the opportunity to have tax payments for the period January to March repaid. Repaid taxes can be kept for a period of a year (SEK300bn) • Government takes on sick leave expenses for 2 months April-May (SEK2bn per month) • Shortened work-week where employers costs are reduced by up to 50% while employees keep 90% of wages (SEK2.4bn) • Municipalities and regions will be compensated for extraordinary costs due to coronavirus. (SEK1bn) • Government offers credit guarantees worth a maximum SEK5bn to airlines. • Extra support to different Health Agencies. (SEK66m)	SEK 300bn (6% of GDP)	Government debt
Norway	• Government pays for the first 20 days for temporary lay-offs; employer period for sick pay and car allowance is reduced to 3 days; sickness benefits & care allowance for self-employed & freelancers • Corporate deficits can be written off against tax on surpluses from previous years • Postponement of wealth tax for owners of corporates now running deficits • Temporary tax relief for airlines, drop in both passenger tariffs and airport tariffs • Government loan guarantee specifically aimed at SMEs (NOK50bn) and reintroduction of Government Bond Fund (NOK50bn) • Reduction of employee's tax by 4 pp. for 2 months	Fiscal: Open-ended but scheduled NOK 16.5bn (0.5% of GDP) Credit: NOK 100bn (3.3% of GDP)	Proceeds from oil fund
Finland	• EUR27m in extra spending on health care and EUR73m to stave off acute corporate funding pressures • Deferred corporate tax payments • State Pension Fund will buy EUR1bn of commercial paper • The government will increase capacity to guarantee loans to SMEs • Business Finland will provide emergency aid to companies in worst affected industries	EUR 3bn (1.3% per GDP)	Government debt
Switzerland	• Aid package aimed at helping companies where CHF8bn is earmarked to fund the imposition of short-time work at firms; other tranches for hardship loans and to support specific sectors.	CHF10bn	Government debt

Source: Various government sources, Danske Bank

Global fiscal policy responses to coronavirus (cont'd)

Country	Measures	Size	Funding
ASIA			
China	• Exemption from social security payments for up to five months (0.7% of GDP). • Postponement of Housing Provision Fund payments for companies affected by COVID-19 worth CNY350bn (0.35% of GDP) • Reduction in VAT for SME's' Special-purpose bond issuance quota lifted and front loaded (for infrastructure projects)	Est. CNY 1.25 trn (1.25% of GDP)	Government debt and special-purpose bonds
New Zealand	• Wage subsidies, permanent lift in welfare payments • Reintroducing depreciation deductions • Lifting the threshold for payment of provisional tax • Note: adds to existing (from Dec) infrastructure package of same size	NZD 12.1bn (4% of GDP)	Government debt
Japan	• Credit lines for SMEs (particularly tourism) • Compensation for freelancers, self-employed, non-regular workers & parents burdened by school closures	0.3% of GDP	Budget reserve
AMERICA			
US	• Emergency spending package • 2nd package about to be approved • Negotiations on third package (~USD1,000bn) are about to start	Up to USD1,200bn (nearly 6% of GDP) if everything is approved	Government debt

Source: Various government sources, Danske Bank

Global monetary policy responses to coronavirus

Country	Date	Measures	Rate changes	QE (in national currency)	Liquidity	Initial market impact	Comment	Bank regulation
BoJ	19 Mar	JGB purchase		Unscheduled JPY1trillion JGB purchase		Initially dampened increase in 10-year yields		
BoJ	17 Mar	USD funding	no change		USD30billion 3-month dollar operation	USD/JPY basis swap eased	Part of agreement between global central banks to offer three-month credit to ease funding constraints	
BoC	17 Mar	Rate cut	-100 bp		Various liquidity measures including CAD 500M/week asset purchases, a standing liquidity facility, eased collateral terms and extended term repo operations.	Lower fixings, weaker CAD		
Nationalbanken	19 Mar	Rate hike 3m repo	+15bp in certificates of deposit rate		new emergency repo facility at -0.35%			
BoE	19 Mar		-15bp down to 0.1%	GBP200bn				
SNB	19 Mar	Stronger language on CHF valuation.	no chg (but exemption thresholds raised on sight deposits)	Balance sheet to be more actively used to stem CHF appreciation	No new measures but SNb takes part in G6 USD swap lines.	Broadly CHF neutral	Balance-sheet expansion rather than rate cuts to safeguard policy transmission mechanism	Considering lower countercyclical capital buffer
Fed	19 Mar				Extends USD swap lines to other central banks outside G6 including Scandi central banks Launches Money Market Mutual Fund Liquidity Facility (MMMFLF)			
ECB	18 Mar	QE (PEPP)	no change	EUR750bn in APP asset classes. Also including GR (non-investment grade) Commercial paper Collateral easing		Strong spread tightening and yields lower	A bold and sizeable move by the ECB to contain the credit risk.	
Fed	17 Mar				Launches Primary Dealer Credit Facility (PDCF) & Commercial Paper Funding Facility (CPFF) Encourages banks to use capital and liquidity buffers and use the Fed's discount window			

Source: Various financial supervisory sources, Danske Bank

Global monetary policy responses to coronavirus (cont'd)

Country	Date	Measures	Rate changes	QE (in national currency)	Liquidity	Initial market impact	Comment	Bank regulation
Riksbank	16 Mar	QE Long-term repo operations Lowered O/N lending rate Eased collateral rules for covered bonds	O/N rate lowered from 75 bp above repo rate to 20 bp above.	Expanded QE with up to SEK300bn during 2020, which will include SGB's, municipal bond and covered bonds. ~6% of GDP	SEK500bn (10 % of GDP) 2y loans to banks for on-lending to NFC's at the repo rate. 20 % must be onward lending. If not, a 20 bp charge is applied. Normal collateral applies. Unlimited amount of weekly 3m loans at 20 bp above repo rate. The amount of covered bonds allowed as collateral is raised from 60 % to 80 %.	Covered bonds tightening significantly Likely to ease Stibor pressure	SEK300bn in QE means that the QE portfolio will almost double in size. RB also keeping the door open to buy corporate bonds if needed. Liquidity measures will ease upward pressure on Stibor. The RB continues to state that it can use all tools at its disposal (we expect eventual cut).	Counter-cyclical buffer lowered to zero
Norges Bank	19 Mar	Rate cut, unlimited F-loans to banks (liquidity)	-50bp/easing bias	No QE but NOK50bn credit fund set up funded by the government (oil money)	Unlimited 3M F-loans to banks (1W, 1M, 3M, 6M and 12M). Interest rate is policy rate for up to 3M,+25bp for 6M,+30np for 12M.	Lower Nibor fixings	Risks are skewed towards more action via rate cuts	Counter-cyclical buffer lowered to zero
Nationalbanken	18 Mar	Lending facility	Lending facility at -0.50%		Extraordinary lending facility will be launched. The lending facility makes it possible for monetary policy counterparts to take 1-week loans against collateral with an interest rate of -0.50%	Cap on OIS rates and Cibor fixings		Counter-cyclical buffer lowered to zero
BoE	16 Mar	Rate cut, liquidity, countercyclical capital buffer cut	-50bp	Unchanged	New term funding scheme, countercyclical capital buffer down to 0%	GBP negative		
BoJ	16 Mar	QE and liquidity	no change	Double cap for pace of ETF pick-ups to Y12trillion/year. Also double cap for pace of real estate trust funds and set aside 2 trillion yen for additional purchases of commercial paper and corporate bonds	New loan programme to extend zero-rate loans to financial institutions	Net slightly disappointing. Stock market disappointed as BoJ gives no guarantees. USD/JPY decrease as rate cut was priced in	Much as expected, although four days early. BoJ said rate cut still on the table, but will likely do more harm than good. Still plenty of flexibility to increase JGB purchases within signalled annual pace	
South Korea	16 Mar	Rate cut	-50bp					
Fed	15 Mar	Rate cut, QE, USD liquidity, 0% reserve requirement ratio	-100bp	USD500bn in Treasuries, USD200bn in MBS, ~3.2% of GDP		Negative Monday morning	Fed went all in in a surprise move on Sunday by emptying the conventional tool box	
RBNZ	15 Mar	Rate cut	-75bp			Positive - initial market impact	Significant fiscal package: 4% of GDP + 4% infrastructure (from Dec). Also 75bp cut. Clear guidance that next is QE	

Source: Various financial supervisory sources, Danske Bank

Global monetary policy responses to coronavirus (cont'd)

Country	Date	Measures	Rate changes	QE (in national currency)	Liquidity	Initial market impact	Comment	Bank regulation
Riksbank	13 Mar	Long-term repo operations (2Y)	no change	N/A	2Y loans against collateral totalling SEK500bn for liquidity support. Priced at repo rate given that 20% of the volume is lent out to non-financial companies. If not, 20bp is added to the repo rate	No direct market impact	In the press conference, RB said that it is prepared to use all tools available, including buying municipal, covered and corporate bonds.	
PBOC	13 Mar	Liquidity, RRR rate cut			Offers discount to bank reserve requirement by 0.5 to 2 percentage points for qualified banks. Can release CNY550bn to banking system.			
ECB	12 Mar	QE LTRO and TLTROs	no change	EUR120bn envelope additional by year-end. Additional EUR120bn of QE, favouring private programmes. Flexible implementation ~1.1% of GDP	Bring financing at depo rate (fixed rate full allotment) until June TLTRO TLTRO at MRO-25 to depo-25bp subject to 0% lending growth. Strip off 10% eligibility rule. Lifting of pool eligibility from 30% to 50%. Dual rates	Large impact - as disappointment of no cut	Underwhelming package, in particular in terms of QE size	
Fed	12 Mar	Buying further out the US yield curve (reserve management purchases) Longer-term repo operations			Offering a total of USD1,000bn in one-month and three-month repo operations on a weekly basis	Positive intraday on announcement	Fear of lack of liquidity and oversubscribed repo operations made the Fed go all in on liquidity	
Fed	09 Mar	Increased the amount offered in repo operations			Overnight repo at least USD150bn (from USD100bn) Two-week repo at least USD45bn (from USD20bn)		Due to fear of lack of liquidity and oversubscribed repo operations	
Fed	03 Mar	Rate cut	-50bp				Emergency rate cut due to major sell-off and increased market pressure	
Reserve Bank of Australia	03 Mar	Rate cut	-25bp					
PBOC	20 Feb	Rate cut	-10bp					
PBOC	10 Feb	Loan provision/rate cut			Special re-lending fund set up of CNY300bn for selected companies at rate 100bp below LPR rate. MoF to subsidise half of interest rate cost.			
PBOC	03 Feb	Rate cut	-10bp					

Source: Various financial supervisory sources, Danske Bank

European bank regulation responses to coronavirus

Country	Date	Measure
Denmark	19 Mar	D-FSA states that financial institutions may apply to make use of LCR buffers. D-FSA instruction states that forbearance to clients as a result of the COVID-19 situation will not automatically increase provisioning needs.
France	18 Mar	Counter-cyclical buffer rate lowered from 0.25% (due to reach 0.5%) to 0.0%.
Germany	18 Mar	Counter-cyclical buffer rate lowered from 0.25% to 0.0%.
Iceland	18 Mar	Counter-cyclical buffer rate lowered from 2.0% to 0.0%.
Ireland	18 Mar	Counter-cyclical buffer rate lowered from 1.0% to 0.0%.
Finland	17 Mar	Systemic risk buffer removed, bank-specific requirements lowered, resulting in 1pp lower buffer requirements.
Netherlands	17 Mar	Systemic risk buffer lowered, mortgage risk weight floor postponed.
Sweden	16 Mar	Temporary relaxation of LCR requirements for individual and total currencies. Breaches should be reported to S-FSA.
Sweden	13 Mar	Counter-cyclical buffer rate lowered from 2.5% to 0.0%.
Norway	13 Mar	Counter-cyclical buffer rate lowered from 2.5% to 1.0%.
Norway	13 Mar	Temporary relaxation of LCR requirements. Breaches should be reported to N-FSA.
EBA	12 Mar	Postponement of EU-wide stress test to 2021. Call for competent authorities to make use of flexibility embedded in current regulation (where appropriate).
ECB / SSM	12 Mar	Banks temporarily allowed to operate with capital below levels defined by Pillar 2 Guidance and Capital Conservation Buffer. Temporary relaxation of LCR requirements. Easing of requirements on composition of capital for Pillar 2 Requirement brought forward. Statement highlights flexibility provided to supervisors with respect to non-performing exposures.
Denmark	12 Mar	Counter-cyclical buffer rate lowered from 1.0% (due to reach 2.0%) to 0.0%.
Belgium	11 Mar	Counter-cyclical buffer rate lowered from 0.5% to 0.0%.
United Kingdom	11 Mar	Counter-cyclical buffer rate lowered from 1.0% (due to reach 2.0%) to 0.0%, LCR buffers can be drawn upon.

Source: Various financial supervisory sources, Danske Bank

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