COVID-19 crisis: Solutions to business liquidity issues

April 3 2020

Ibec
For Irish Business

Summary of measures needed to address liquidity crisis

Liquidity Supports

- €2bn State funded zero interest working capital fund
- 12 month zero interest loans on State supported schemes
- ISIF commercial paper purchase programme of €2 bn
- Provide national guidance and support for ECB Corporate Sector Purchase Prog.
- Review bank lending codes and regulatory requirements

State backed guarantees

- Extend the SME credit guarantee scheme to cover re-financing, portfolio cap to 50% & facility cap to €5mn
- Remove facility premium on credit guarantee and provide State cover for loan interest
- Introduce new export credit insurance scheme
- Guarantee for invoice financing

Tax forbearance & rebates

- Tax deferral for at least 3 months
- 6 month local rates holiday & 6 month deferral
- Accelerate Revenue scheme payments and reliefs to business
- Flexibility on tax reporting deadlines
- Binding arbitration model for commercial rent disputes with State burden sharing
- Tax deduction for interest expense accruals

Cash injections

- Introduce a crisis cash payment for SMEs to max of €15,000 to be delivered through Revenue payment model

The need for liquidity support: key messages

- Covid-19 is having a significant impact on liquidity in the economy. For many businesses orders which were fulfilled in the opening quarter of the year have not been paid for, payment timelines are stretched, credit facilities provided by large firms are coming under strain, and the need for cashflow has greatly increased.

- In the coming weeks, bills, rents, and other fixed costs will go unpaid as a result of this cashflow freeze. For companies of all sizes this will put increased pressure on their ability to trade and finance their operations. Left without intervention, this will result in a significant spike in liquidations over the coming months and a very slow return to normal operations, investment and expansion for firms who stay open through the crisis.

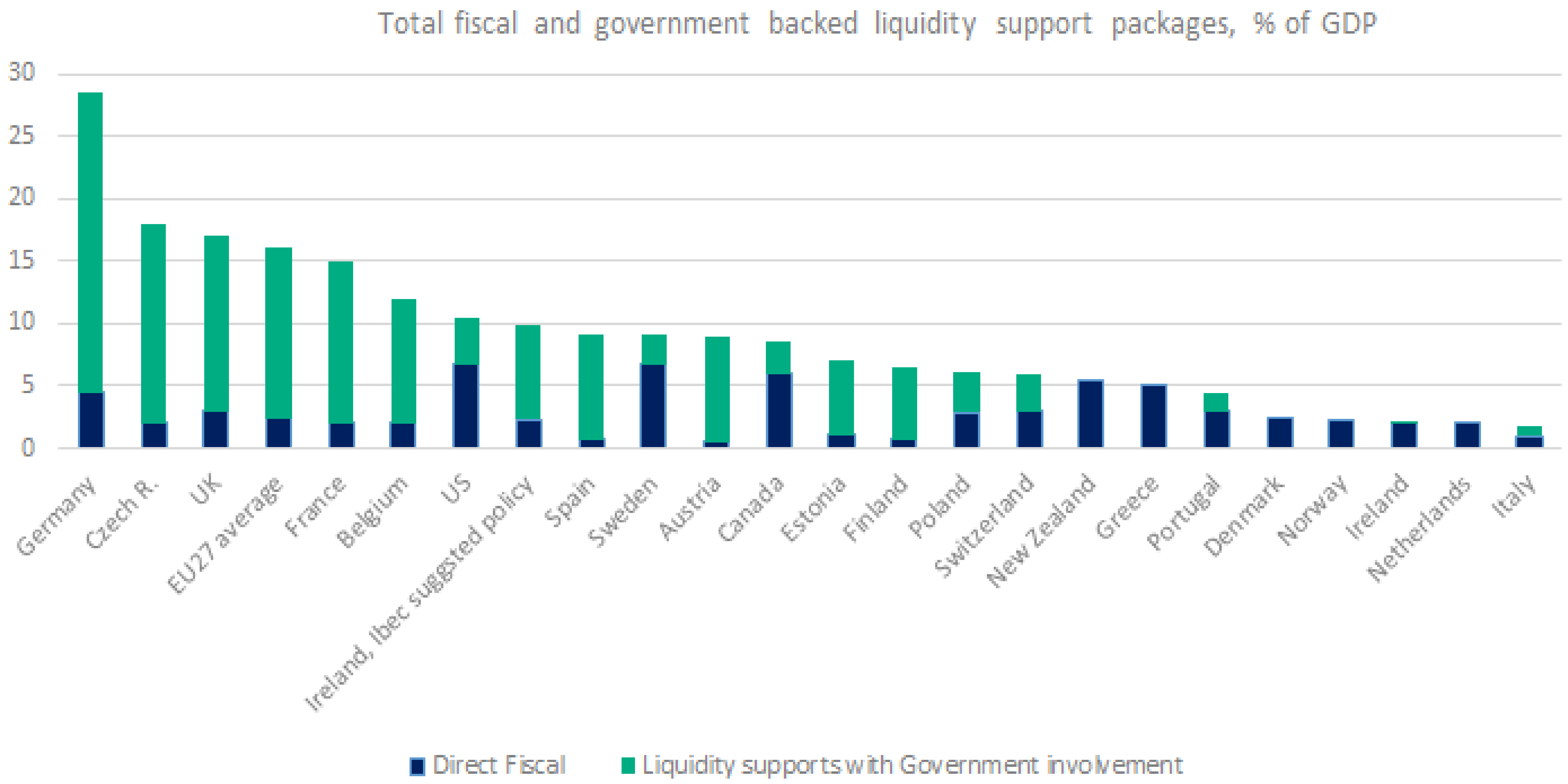
- Ibec believes that new and significant cashflow and liquidity supports need to be put in place. Including existing measures, the package outlined in this proposal, if fully utilised, would increase Government support to the economy by up to 10% of GDP. This is in line with international developments.

- The total programme of guarantees, loans, and other supports would help ensure €26.4 billion of liquidity to the economy, but at a maximum would leave the Exchequer exposure at €5.9 billion. Given many of the supports are in the form of short-term commercial paper, medium term loan facilities, or time-bound forbearance measures, Ibec's analysis concludes the final net cost to the Exchequer of the new measures in this proposal would total around €3.9 billion.

- Although these are significant sums, there are no cheap alternatives. Without the implementation of these measures the road to recovery from the crisis will be longer. This, over a period of years, would result in lower tax takes and higher social costs. Our choice is to support the economy now, or to pay in the form of slower growth later.

- These Ibec proposals can be viewed as a calculated and temporary extension of the Government's balance sheet and set out to ensure the economy is ready to recover quickly.

Measures to support liquidity already in place



- Whilst direct fiscal measures in Ireland are now above average relative to developed peers, supports for business liquidity are still lagging significantly.
- Average liquidity support across the EU 27 stands at 16% of GDP. In Ireland, it stands at 0.1% of GDP.

Source: IMF policy updates, Ibec calculations.

The new temporary framework on State Aid

Overview

- A new temporary framework on State Aid has been introduced by the European Commission in order to combat the economic effects of Covid-19
- This, in effect, allows Governments to be much more aggressive and direct in supporting companies through the crisis
- This facility should be utilised to its fullest extent in order to ensure economic continuity throughout the temporary period of the crisis
- In some circumstances, Article 107(2)(b) TFEU enables Member States to compensate companies for the damage directly caused by Covid-19

Specific measures allowable

1. Member States will be able to set up schemes to grant up to €800,000 to a company to address its urgent liquidity needs.
2. Member States will be able to provide State guarantees to ensure banks keep providing loans to the customers who need them.
3. Member States will be able to grant loans with favourable interest rates to companies.
4. Safeguards for banks that channel State aid to the real economy
5. Increased use of export credit insurance

Cash flow and enterprise preservation measures comparison

	Notable measures	Ireland's response
Tax forbearance and rebates	Suspension or deferral of revenue, social insurance & rates payments in most EU countries for impacted companies. Tax rebates provided in many countries for specific cases. Complete suspension of social security accruals for firms in impacted sectors in Portugal and Greece. 60% tax relief on commercial leases for closed companies for the period of closure in Italy	Application of interest to late payments of VAT suspended for January/February. Effectively a VAT payment deferral. Application of interest to late payments of employer PAYE (income tax) liabilities suspended for February/March. Effectively a payment deferral.
Liquidity supports	Range of low cost and State guaranteed loans reducing risks to SMEs outside of existing state-aid German state guaranteeing "unlimited" liquidity to impacted companies. Initially 6% of GDP in state backed low cost loans half equity. Loans up to €5 million for UK SMEs with 80% guarantees and 12 months interest free. BoE assistance with corporate financing & re-financing EU SURE scheme to support national wage subsidies.	A €200m Strategic Banking Corporation of Ireland (SBCI) Working Capital scheme for eligible businesses impacted by COVID-19. A €200m Package for Enterprise Supports including a Rescue and Restructuring Scheme (under old State Aid guidelines) available through Enterprise Ireland Loans up to €50,000 for microenterprises with interest rates of 6.8% to 7.8%
Direct cash support for small firms	In Germany a €50bn euro fund for small companies giving up to €15,000 for three months, in direct cash payments (worth 1.5% of GDP) Rates holiday in UK for 2020. Cash grant of up to £25,000 per property in the retail, hospitality, and leisure sectors and up to €10,00 for small firms in other sectors	Business Continuity Voucher of up to €2,500 details to be announced.
State backed guarantees	12% of GDP in loan guarantees for firms in Germany, with similar measures in UK, Spain, and France.	Existing SME credit guarantee scheme worth (0.03% of GDP) remains in place

Policy actions required

Liquidity support

- The State should make available a total fund of €2 billion through the Strategic Bank Corporation of Ireland (SBCI) (and Enterprise Ireland) and its related on-lenders for low interest rate investment and working capital loans to impacted business of all sizes. These loans should be available at zero interest for the first twelve months, with the interest portion being covered by the State.

- The State, through the Irish Strategic Investment Fund (ISIF), should launch a commercial paper purchase programme targeted at the mid cap market.

- The State should cover the interest rate on new and existing loans through ISIF, the SBCI and the Microfinance loan scheme for a period of 12 months rather than introduce temporary deferrals.

- Ensure that European Institutions adequately support non-financial corporates through the ECB's Corporate Sector Purchase Programme (CSPP) and ensure national Central Banks provide adequate guidance to companies accessing these facilities.

- Undertake an urgent review of staffing requirements, lending codes and associated regulatory requirements in banks in order to ensure loans can be processed in a timely fashion in order to meet time sensitive liquidity needs.

State backed guarantees

- Extend the SME credit guarantee scheme to cover re-financing of existing loans, extend the total portfolio cap to 50% and the facility cap to €5 million.

- Remove the 0.5% facility premium on the SME credit guarantee scheme and provide State cover for the interest rate on new and existing loans under the SME credit guarantee for an initial period of 12 months.

- To ensure the expected gap in supply of export credit insurance does not impact on the ability of Irish firms to export, introduce a new scheme covering short term export credit insurance for companies in line with the new temporary state aid framework.

- Put in place extended guarantees to allow invoice financers to extend sums above their normal advance rate with the comfort of the State guarantee of up to 15% of the funds in the case of non-payment.

Policy actions required (2)

Tax forbearance and rebates

- Ensure that the definition of SMEs for the purposes of forbearance measures is in line with EU legal definitions
- Allow impacted companies to defer VAT and excise payments for a period of at least three months, on a self-assessment basis, in order to facilitate business planning and ensure companies are not paying upfront tax for payments not received.
- Provide funding to local authorities to put in place a six-month rates exemption for impacted companies and to support a further six-month deferral
- Accelerate payment to businesses of VAT bad debt relief, Section 481 relief, the R&D tax credit and other payments which impact on liquidity.
- Allow for the optional extension of all mandatory tax reporting deadlines for three months in order to facilitate inevitable delays from changes in remote working.
- Show maximum flexibility to companies suffering sales losses when calculating preliminary tax. Suspend all penalties for preliminary tax filings.
- Allow a tax deduction for all interest expense accruals irrespective of whether it is trading or non-trading annual interest (including FX losses). Suspend the “interest paid” conditions in S247 for existing loans. Defer the introduction of new EBITDA interest restrictions.
- Explore a binding mandatory arbitration model for disputes over commercial leases with a facility for some State burden sharing and provide short-term protection from eviction.

Direct cash support for small firms

- Other countries have rolled-out direct supports in grant form for small companies in distress.
- The aim of these measures is to compensate companies for lost earnings and to assist with fixed costs
- The Irish approach through the business continuity voucher should be prioritised to companies through the existing Revenue payment system for the wage subsidy scheme – for companies with fewer than 50 employees which have declared for the scheme. This should provide cash payments to impacted firms of up to €15,000.

Annex 1: Potential cost of measures

	Assumptions	Total Exchequer cost	Liquidity underpinned by measures
Tax forbearance and rebates	Most forbearance measures will either be cash flow issues or will result in genuine reductions in the tax take due to falling activity. Main new measures would be funding put in place to alleviate rates bills for impacted companies for up to six months. Based on 40% of all ratepayers being paid by claimants.	€300 million	€300 million
Liquidity supports	A facility worth €2 billion in loans should be made available through the SBCI for close to zero interest loans for investment and working capital. Also assumes 12-month interest coverage for other existing loan schemes. ISIF delivered commercial paper purchase programme .	€2 billion	€2 billion €2 billion
Direct cash support for small firms	Assuming take-up of €15,000 – over three months - across an estimated 20,000 companies.	€300 million	€300 million
State backed guarantees	There are currently €11.2 billion in outstanding debts owed by SMEs in the sectors which qualify for the SME credit guarantee scheme. We estimate demand for small mid-caps would result in something around this level again. Hypothetically, the exposure to the State from the changes suggested would (taking account of the limit on individual loans and the portfolio cap) amount to in the region of €9 billion existing loans and we estimate another €2 billion of new loans (assuming a lending need during the crisis of €5 billion). It is highly unlikely the full amount of this would be needed. Assumes an NPL rate of 25% at a maximum. Includes interest rate coverage and removal of facility premium for 12 months. In addition, an export credit guarantee of 80% of credit for the 8,000 exporting companies in Ireland on a rotating facility maximum of €1 million. Based on a three times multiple of globally insured claims rates during the financial crisis (0.9%) and current market premia rates (0.3%). Source: International Credit Insurance & Surety Association (ICISA). Would result in a subsidisation rate of 0.6% of the total insured trade. Total factoring turnover in Ireland over a 12-month period €26 billion (Source: EUF). Assuming guarantee rate of 10% and bad debt level of 10% on transactions.	€2.8 billion €50 million €260 million	€11 billion Insured exposure of €8 billion Insured exposure of €2.6 billion
Total package		€5.9 billion (around 1.6% of GDP)	€26.4 billion (around 7.5% of GDP)