

## Fiscal Policy Update

*Federal government aid to support businesses and households amidst COVID-19 fallout*

The federal government expanded support for businesses in a big way yesterday by vastly expanding the *Canada Emergency Wage Subsidy program*. The government raised the subsidy from 10 per cent for small businesses to up to 75 per cent subsidy covering organizations regardless of size. This also includes charities and non-profits to encourage them to keep workers employed during the COVID-19 pandemic.

The subsidy will be available to small and large businesses experiencing revenue loss of 30 per cent due to the crisis and will last for up to three months, retroactive to March 15, 2020. This will not only keep more employees on payroll but also lead to some re-hiring to maintain talent for the recovery period. Prime Minister Trudeau's recent media briefings noted that the wage subsidy of 75 per cent will be for the first \$58,700 of salary earned, up to \$847 per week.

The fact that this is now a broader business package as it extends to large organizations as well could mean multi-billion organizations hard hit by the crisis will be eligible for some wage subsidies, although this program is meant for those that really need it, given the 30 per cent revenue reduction requirement.

Additionally, the federal government announced the provision of interest free loans of up to \$40,000 for small business and non-profits via the new *Canada Emergency Business Account*. Payrolls in these organizations for 2019 would have to fall within the range of \$50,000 and \$1 million. Repayment of the loan prior to December 31, 2022 yields loan forgiveness of 25 per cent.

The latest measures add to other credit and liquidity measures announced in recent weeks via Export Development Canada and the Business Development Bank of Canada. The Bank of Canada has also added to liquidity through various facilities alongside quantitative easing measures.

The federal measures outlined above and other recent

policies including deferral of tax payments at both the federal, provincial, and in some cases municipal levels of government puts businesses on more solid ground to get through this health crisis and the economic ramifications, while keeping employees paid and contributing to consumer demand, mortgage and rent payments.

The business measures add to the strong support for households previously announced, highlighted by the *Canada Emergency Response Benefit (CERB)* which targets those unfunded by employment insurance benefits. The program provides a \$2,000 per month payment for individuals affected by COVID-19, workers affected by lower demand and hence not working, contract workers and those taking care of the ill, and working parents affected by school closures. Other measures include temporary increases to the Canada Child Benefit and GST credits among others.

The current menu of policy moves are designed to bridge the economy through this health and economic crisis to ensure resilience on the other side of chasm. In its absence, households through no fault of their own would likely trigger massive defaults on mortgages, rents would not be paid, while businesses would shutter permanently. The latter would hammer capacity in the economy and that would not be easily be restored following the pandemic. It should be noted that one aspect of this policy is that we will see a sharp GDP decline but potentially less impact on employment as staff are officially employed. These individuals will be paid to stay home as designed but will be economically unproductive in the short term.

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