Coronavirus: The United Kingdom in the context of global economic responses

The enormity of COVID-19's human tragedy is unquestionable. As we pass 15,000 deaths in the UK, we pass 15,000 bereaved families. This horror has been replicated across the globe with a quarter of a million unique tragedies. In that context it may feel churlish to consider the economics of the crisis and its financial cost, but in failing to do so we would ignore the impact on all of our lives made by this virus’s mutilation of the world’s economy.

Naturally a crisis of such gravity also has political consequences. In each country, governments face choices, quite literally, between lives and deaths. Lockdowns and social distancing will doubtless save lives but come with increasing financial and economic cost. Economic activity requires social activity and is therefore tethered, to some extent, to rates of mortality. These stark conflicts of interest may evoke the biblical story of the Tower of Babel. As with the nations dispersed from Babel, our complex network of social and economic connections has inadvertently contributed to a crisis that threatens to undermine that very network, and to impoverish our lives as a consequence. To what extent politicians decide, like the scattered people in the story, to abandon or rethink this vast construction as we recover from this crisis will be a matter of great interest and importance.

In terms of human activity, it is as if the world has stopped turning. Philosophically, economic wealth may be understood as an illusion which has become a reality because of universal belief in it. Money represents goods and services that we can buy only so long as the sellers believe that, when it finds its way into their bank account from ours, they too can use it to buy goods and services. The deepest foundations of our society require that the illusion is not shattered, and, in normal times, there is little danger of that happening. But in the case of a global disaster such as the COVID-19 pandemic, there is a prospect that it may be beginning to fracture.

The question, really, is whether governments, businesses, and consumers are doing enough to repair these fractures, or whether they will merely paper over them. With the help of our colleagues at TGS Global, we have investigated what is being done around the world to keep the wheels of economics turning. We have done this from the perspective of a firm of accountants; we are not economic theorists working with models, but realists working with real clients. Much of our research has relied on translation and interpretation, and we apologise if we have any misunderstandings; this paper is for interest only and should not be relied upon for decisions.

Our first reaction is sheer astonishment at just how much is being spent by governments. The UK government, we know, has committed at least £330bn so far, and that sum is escalating. Meanwhile, Germany’s commitment is £650bn, and the USA, a staggering £1.6tn (£1,600bn). These are previously unimaginable sums. Almost every country in the world is committing sums as much as 10% of its entire annual GDP. Although the figures are not available for every country, if on average the budget is 5% of GDP, we may expect a global cost of £4,250bn.

It is sobering to reflect on this cost which is just the economic aspect of the damage done by a molecule tens of thousandths of a millimetre in size, which seems to have developed in a bat; however, the explanation is quite simple. If the world stops for three months, that is 25% of its output for a year disappears. If we assume that, in fact, activity actually only slows by 20% on average for each of those three months, then we can account for our 5% of global GDP, or £4.25tn.

Individual countries and industries will fare variously, so the overall cost is not yet certain. In China, the Hubei province saw a 71% drop in output, but other provinces did better, losing 40%. By the end of March, Hubei had recovered to 48%, while Shandong was up to 78% of normal output.

This enormous sum of money is being applied in various ways, and some of them seem more judicious than others. We have concentrated mainly on Europe in our study, but we have looked also at the USA and China as two major players in the world economy.

The table below, with explanations following, gives a general picture of our understanding as to which measures these countries have introduced in one form or another in order to help small and medium-sized businesses.

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Hillier Hopkins would like to thank its colleagues at TGS Global for providing additional input and information to assist us in our analysis.

Country	Wages subsidies for furloughs	Wages subsidies for short time	Grants to replace lost business income	Blocking late payment claims	Self-employed Grants	Gov't supported Business Loans	Gov't supported loans for individuals	Tax Waivers	VAT Deferral	Tax Deferral	Special Measures for socialising businesses	Admin relaxations
Austria	Yes	Yes	No	No	TBA	Yes	No	Yes	TBA	TBA	TBA	Minor
Belgium	No	No	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes	Minor
Bulgaria	Yes	No	No	Yes	No	Yes	Yes	No	No	No	No	Significant
China	Yes	Yes	Yes	No	No	Yes	No	Yes	Yes	Yes	No	No
Croatia	No	No	No	No	No	Limited	No	No	No	Some	Loans	No
Cyprus	Some	Micros	Possible	Some	Some	Unspecified measures			Micros	Unspecified measures		
Czech Republic	No	No	Yes	No	Child care	Yes	No	Yes	Yes	Yes	No	Minor
Denmark	Yes	No	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Estonia	Yes	Yes	No	No	No	Yes	No	No	No	No	Yes	No
Finland	Package of 2support covering a range of gov't supported subsidies						No	No	No	Yes	Yes	Some
France	Yes	Yes	Yes	No	Partial	Yes	No	No	Yes	Yes	No	Yes
Germany	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes
Greece	Yes	No	Rent Reduced	No	Yes	TBA	Holiday	No	Yes	Yes	No	No
Hungary	No	No	Some	No	No	No	No	No	No	Yes	Yes	Yes
Ireland	Yes	Yes	No	Yes	No	Yes +	Grants	No	Yes	Yes	No	Yes
Italy	Partial	No	Yes	No	Yes	Yes	Holiday	No	Yes	Yes	No	No
Latvia	Yes	Yes	No	No	No	Yes	No	No	Yes	Yes	No	Yes
Lithuania	Yes	Yes	No	No	Yes	Yes	No	No	No	No	No	No
Luxembourg	Yes	Yes	No	No	Yes	Grants	No	No	Yes	Yes	No	No
Malta	Yes	Yes	No	No	Yes	Holiday	Holiday	No	Yes	Yes	Yes	No
Netherlands	No	No	No	No	No	Yes	No	No	No	No	No	No
Poland	Yes	Yes	No	No	No	Yes	No	No	No	No	No	Yes
Portugal	Yes	No	No	No	No	Yes/Holiday	Holiday	No	Yes	Yes	Yes	No
Romania	Yes	No	No	No	Yes	Yes/Holiday	Holiday	No	No	Yes	Yes	Yes
Slovakia	Some	Some	No	No	No	No	No	No	No	No	No	No
Slovenia	Yes	No	No	No	Yes	Yes	Holidays	No	Yes	Yes	No	Yes
Spain	No	No	No	No	No	Yes	Holidays	Yes	Yes	Yes	Yes	Yes
Sweden	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes/Refund	No	Yes
United Kingdom	Yes	No	Yes	Some	Yes	Yes	Mortgage	No	Yes	Yes	Yes	Some
USA	Yes	Yes	Yes	No	Yes	Yes	No	No	No	Yes	Yes	Yes

Support for Small and Medium-Sized Businesses (See Note 1 in green box)

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> **Note 1:**
> **This paper is for information purposes only. No reliance should be placed on the data included in this report. The sources of information are websites of various governments and professionals in many countries, including several translations for the purposes of which linguistic nuances may have been missed and erroneous interpretations may have resulted.**

Broadly, every country has adopted a series of measures to support the large corporations, generally providing them with liquidity through buying up bonds. This was an early key measure announced by the Chancellor in the UK; he was not the first to do so, nor will he be the last. We have focused on the SME sector, where the mixed bags across the nations once again look broadly similar.

It is important to point out that every country has a different type of economy and society, and most important, a different fiscal (tax) system. We have stated "Yes" to a measure for any country that has done something to address the key area, even though the extent to which the measure in operation has been applied varies greatly. Likewise, a statement of "No" may not mean there is absolutely no such measure, but only that we can find no reference to it at present or that its objective has been met through a different mechanism. Each country also has varying qualities of available information. Rather than consider each country individually, we have arranged our analysis according to the main form of support being given.

The European Union

Before considering these areas, it is worth taking note of what the EU has done. It has revised its five-year financial projections, and its budgets, but views them fairly optimistically, taking all things into account. It has put together a stabilisation programme to provide rescue funds for the eurozone, while seeking to prevent unemployment. The European Investment Bank has been directed to support bank guarantees required for corporate liquidity. New bonds have been issued ("Coronabonds").

The EU is not a nation state and as such it can promote co-ordination, but it cannot intervene directly. Therefore, an important measure has been the relaxation of state-aid restrictions on individual countries, allowing the measures below to be put into place. An example is that the EU has permitted the French measure of providing small independent businesses with a grant of up to €3,500 each to cover overheads.

Wages subsidies

The main objective of these subsidies is to prevent mass unemployment caused by businesses having to close temporarily. They take various forms. In the UK, employers can furlough (lay-off) staff, subject to employment laws, and receive a refund of wages paid of 80% of their salaries, up to £2,500 per month. This scheme has been used across the world in different forms. Italy, notably, appears to have introduced a grant mechanism unrelated to furloughs, but amounting to €1,500 per person per month, issued directly to affected employees.

Bearing in mind the variation in the cost of living in each country, a comparison of the generosity of different governments' subsidies is meaningless. The percentage available of employee salaries varies from 40% (2 days a week salary up to €800) in Malta up to 90% in Denmark. France originally set the percentage at 70% but has increased it to 100% in some cases.

As can be seen, many governments have seen this as a priority. The UK's response is among the most generous. The objective is to prevent companies being forced into liquidation with mass redundancies. The unintended consequences, however, will be a change in the expectations of businesses and people regarding their relationship with government. And, because governments are footing the bill, there may also be significant impacts on the decisions made by them regarding bringing the lockdown to an end.

Short time subsidies

The general objective of governments has been to avoid mass redundancies. This means that the focus of many has been placed on employees who are unable to work at all. The UK is an example of a government with these priorities and very specifically wishes to avoid subsidising the salary bills of companies which can still use their staff. We can expect HMRC to investigate and seek repayments from companies abusing the system.

Consequently, support for short time working is non-existent in the UK at present and features only in certain countries. Those countries taking this route are often those known for higher-end social security

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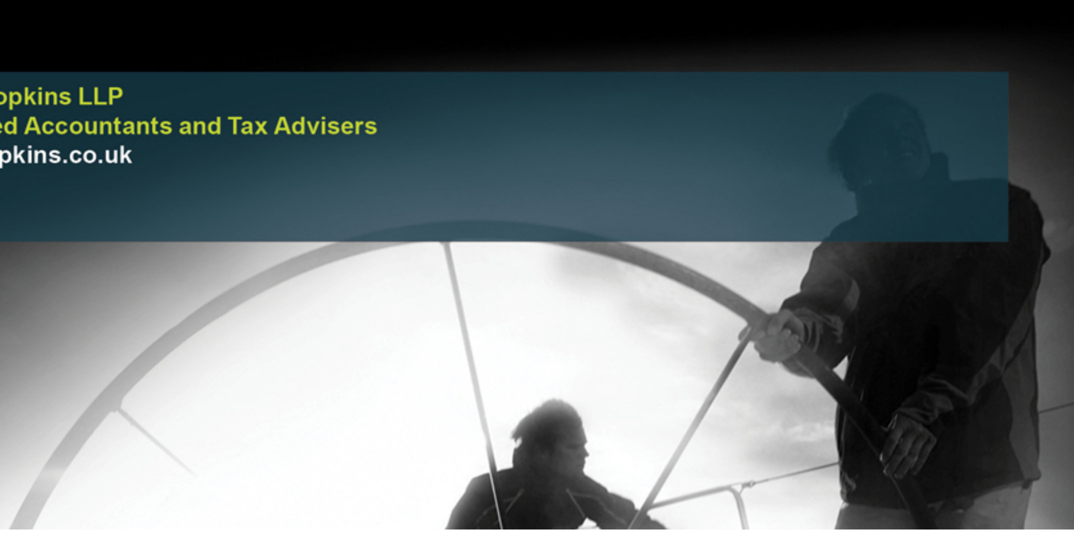

provision such as France and Germany. It is therefore surprising that the USA has included this measure in its menu of support measures, but this peculiarity perhaps reflects its more flexible employment laws.

Loss of business income grants

Most governments have seen that job retention schemes in the form of wage subsidies are the most direct and simplest form of grant to support businesses. There is a direct relationship between the funds available to a business and the impact its closure has on family incomes. Consequently, for the most part, direct grants have not been available to businesses. A few exceptions are notable. Those direct business grants that do exist vary according the extent of reduction in turnover.

Belgium is not alone in seeing direct grants as its route to providing employment support. It has also been flexible in allowing a reduced grant for partial closures. France has directly granted subsidies to micro businesses. The UK has provided grants to two categories of business.

Because hospitality and retail have been badly affected from the outset of this crisis, all businesses in this sector have been given a 12-month business rates (local property tax) holiday. Since most of these businesses are tied to properties, and business rates in the UK are high, this is an extremely welcome measure for many. In addition, smaller business in these sectors will get a £10,000 grant if the "rateable value" of their property is up to £15,000, and for those whose rateable value is between £15,000 and £51,000, their grant will be £25,000.

A further measure in the UK is also the provision of a grant of £10,000 to small businesses. Unlike most countries, which have based such a grant directly on the number of employees, the UK has linked the grant to whether a business gets small business rates relief. What is strange about this measure is that a business which does not occupy a property seemingly gets no grant at all.

Blocking late payment claims

What is meant by this phrase is the creation of specific rules such that, generally, bankruptcy and liquidation activity for debt defaulting is slowed or put on hold. Most countries have introduced some form of relief such that government debt defaults will not be pursued during the crisis – this is indicated in the 'Admin relaxation' column. Few have done so for non-government debt. The notable exceptions are Bulgaria, Germany, Ireland, Sweden, and to a lesser extent, the UK.

The logic of such measures is difficult to comprehend. Blocking legal action against debtors will effectively lead to the flow of money in the economy slowing. In the UK, the measure is merely to prevent enforcement going as far as insolvent liquidations, a position which is logical, as it allows enforcement against, but not destruction of, businesses. Where all recovery has been blocked, it appears to be in countries which have stronger alternative processes.

Grants to the self-employed

There is much less consistency here, partly because many countries do not have a self-employed system in quite the same manner as the UK does. In the UK, the support comes in the form of a taxable grant computed at 80% of average self-employed earnings for the last three years, up to £2,500 per month, in an attempt to mirror employee furloughing. It reflects an economy including many people whose income is akin to that of an employee, but who are not actually employed. It is clearly not aimed at larger self-employed business-owners, but will help partners in smaller businesses.

Across other countries, self-employment arises more in the case of what are called 'sole-traders', or unincorporated businesses. In such cases, the impact is covered by grants to small businesses and there is no need of additional funding. Thus, it is only a handful of countries that have schemes to help self-employed people, and all are intended to reflect the help given to employees.

Government supported loans for businesses
This is the primary form of support underpinning most governments' strategies across the world.

The logic is simple: government will be able to announce an astronomical fund of money available to businesses, mainly small and medium-sized enterprises ("SME"), by providing guarantees to banks to support lending to businesses. The vast majority of these funds, it is hoped, will not be called

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upon thus costing the public purse little. At the same time, governments have lowered the capital requirements for lending to provide more lending capacity within the banking sector. The extent of the guarantee varies greatly from 50% up to 100%, and the UK is near the top of that headline figure at 80%. There is pressure to increase the level of guarantee to 100% in order to circumvent the problem that banks are still applying restrictive lending criteria.

In the UK and elsewhere it has been found that it is the small print that causes difficulty. Banks must assess whether the business would be viable in relation to the loan were it not for coronavirus. In the UK, the system is failing dismally as banks prefer to offer standard commercial loans which are more profitable for them, in favour of the government "Coronavirus Business Interruption Loan Scheme" or "CBILS"). The intention of the government was to provide banks with the security lacking in loans that the banks would otherwise happily give, were it not for their insufficient security. In practice, however, banks have sought to provide normal secured loans and have so far only made 6,000 CBILS loans (at the date of writing).

Other countries, including Germany and Sweden, provide direct lending to SMEs, providing effective cash injections without commercial banks becoming involved. This is proving far more effective than the UK model, but places governments on risk for 100% of the borrowing.

Ireland has not announced such funding but has instead provided grants and interest-free loans to pay for consultants to assist companies in cash-flow and trading management.

There is little doubt that this kind of support created much needed optimism when announced, but, especially in the UK, it has failed to live up to its expectations.

By comparison to direct non-repayable subsidies, it might be said that government prefers to shift the burden of the borrowing (and subsequent requirement to repay it) onto the business being supported rather than borrow the money itself. Only those who default will cause the state to actually have to find the funding.

Government support loans for individuals
Few countries other than Bulgaria have introduced similar arrangements to support individuals by allowing them to borrow under government guarantee. This is hardly surprising, as there is no appetite to build up personal debt in most economies. However, many countries have provided government support for payment holidays on personal borrowing.

In the UK, the government has required mortgage lenders to allow payment holidays for mortgages, but, once again, the (mis)interpretation of these measures has resulted (anecdotally) in lenders requiring interest to be paid but not capital. Since many repayment mortgages, especially newer ones, have mainly interest payments in the earlier years, with little capital being repaid, the holidays are less than ideal.

Tax and VAT waivers and deferrals
A few countries have given waivers of tax completely to businesses and even individuals. Austria has started to consider reductions in taxes. Belgium has cancelled and deferred some social security and self-employment taxes. In Spain, social taxes are exonerated for SMEs keeping 75% of their workforce.

Most countries have suspended enforcement of tax collections for SMEs and many have done so for all taxpayers.

The most ubiquitous means of support, after government guaranteed loans, has been the deferral of VAT and other tax payments. In the UK both VAT and PAYE payments can be deferred up until 31 March 2021, but these taxes will still be payable, and companies do need to consider whether and how they will have the funds to pay them when they fall due. Sweden has offered to refund taxes collected for the previous year to help businesses with cash flow.

Socialising Businesses
As we comment above, businesses such as retail, travel, hotels, restaurants, clubs, bars and related industries rely heavily on socialisation. These businesses have largely been crippled by social distancing rules introduced by most countries. About 35% of countries have introduced special support measures for these businesses.

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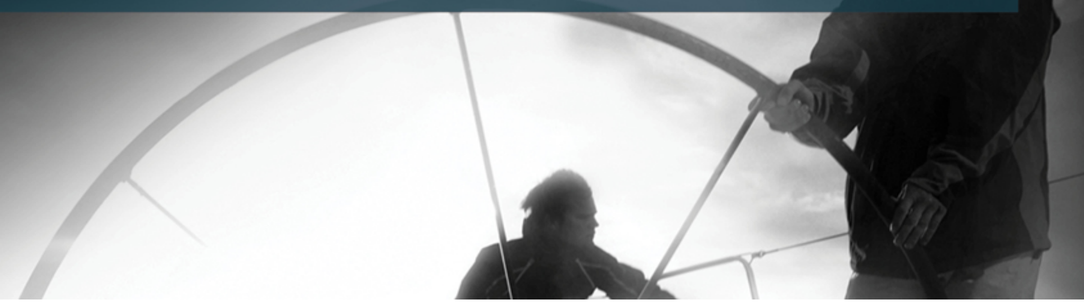

In some cases, as in the UK, these may take the form of grants or reduced taxes. Others, for example, Croatia, have introduced special loans to support the sectors.

Anti-avoidance

Where it appears to businesses that governments are handing out cash like confetti, there is a real risk that some less scrupulous business owners will take advantage where no advantage is intended. In countries where fairly simple mechanisms have been introduced, such as direct grants to businesses of certain sizes, there is little possibility that those who are not entitled to support will take it anyway.

The rather complex furloughing systems introduced by the UK and many other countries will doubtless result in considerable enforcement cost after the event. There will be scandals about companies operating without loss of turnover but which have furloughed staff, for example, retailers who have maintained their turnover through deliveries and a switch to on-line retail, while furloughing their shop-based staff. Banks are more than likely to fall foul, just because they always do. One-man companies furloughing their spouse who does little work for the company anyway will more likely than not fall under the microscope.

Concluding comments

Every country we considered has introduced some measures to support businesses both directly and indirectly as they have been affected by coronavirus. Each will have done so according to its own specific economy and circumstances. The levels and types of support vary greatly. The UK has measured up well, but it has been fairly slow to introduce all the right measures, and in some cases its measures are impractical.

We have significant concerns about whether the main thrust of this support, in the form of the Coronavirus Business Interruption Loan Scheme (“CBILS”), well intentioned as it is, will actually take effect usefully, since banks do not see themselves as instruments of government policy but as businesses seeking profit. The German and Swedish models of direct lending from central government banks seems to be a far more effective method to ensure that funds are made available where they are needed and when they are needed.

The UK’s support for employment through its Coronavirus Job Retention Scheme (“CJRS”), recently extended for another month until the end of June, is both well-constructed and universally applauded. The scheme for self-employed people is better than the nothing originally proposed, but how well it will work remains to be seen.

For a capitalist society, the UK’s response has been remarkable, and, by and large, its government should be recognised for its efforts. The difference in success between CBILS and CJRS appears to be show the flaws in reliance on incentivised market forces when it comes to implementing government policy via profit-seeking organisations. It is quite clear that the speed and quality of the CJRS, operated by civil servants at the Treasury and HMRC, is far superior to the market driven CBILS outcome, at least in the short term. Other countries appear to have the same experience.

In the longer term, be it government or private companies, we are borrowing to support the present, so that the future will have a chance of economic recovery. It will be necessary to adjust future expectations as it will take many years to recover the cost of a 5%-plus fall in global GDP. If the drop in GDP exceeds that, we may find it ever more difficult to recover. A drastic decline will most likely result in global depression, and if consequently Western societies experience a failure in essential services, it can have impacts on political order and the fabric of society itself. For this reason, the global economic response to COVID-19 is necessary to preserve our social order. What we do not know is whether the governments of the world are doing enough.

Stay right up to date with all the latest developments and guidance on our Coronavirus Updates page.

For help and advice, please speak to your usual Hillier Hopkins adviser or contact us on 0330 024 3200.

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