Crisis Working Group Report: Monetary and Financial Measures

The C.D. Howe Institute has initiated a special project to provide rapid expert insights to help Canadians and Canadian policymakers navigate the COVID-19 crisis. Several working groups will address challenges in the monetary, fiscal and financial policy domains. One such group is the Monetary and Financial Measures Working Group, co-chaired by David Dodge, former Governor of the Bank of Canada, and Mark Zelmer, former Deputy Superintendent, OSFI, and supported by a group of financial market experts and economists. Meeting weekly, this group will debate policy ideas, and communicate the results of its discussions in a public joint Communique. The group's first meeting was held on Monday, March 23, 2020.

The working group noted how the COVID-19 crisis is a black-swan event for which businesses and consumers could not have been expected to prepare. It is fundamentally different from the global financial crisis of 2008. This time around the need to protect health has necessitated social distancing provisions around the world that are effectively shutting down large parts of the Canadian and global economies. As a result, the group agreed that, while expanding credit on relaxed commercial terms is absolutely essential, this alone will not be sufficient. Some form of government guaranteed credit facility will be needed in tandem with various forms of targeted fiscal measures to help Canadians and the business community survive and begin resuming more normal operations when the worst of the crisis has passed.

For purposes of stimulating conversation within the group, an example of such a facility was presented, with the following features:

- 100% guarantee by the Government of Canada, and available to Canadian firms either through federal and provincially-regulated deposit-taking institutions, or crown agencies like Business Development Bank of Canada, Export Development Canada or Farm Credit Canada.
- The facility would be open until such time as the public health crisis has passed and economic activity restarted. At that point any borrowings would be repayable over the subsequent five years at a rate charged at a premium to commercial terms.

- Any firm that was solvent as of February 29, 2020 would be eligible to borrow, and the maximum amount they could draw would be negotiated by the borrower and lender based on an assessment of the borrower's capacity to repay the funds over a five-year period, in a normal business environment.
- Any credit extended through the facility, and administered through financial institutions would be excluded from the calculation of lender regulatory capital and leverage requirements on the grounds that the credit is fully guaranteed by the Government of Canada.

The working group generally agreed that such a facility should be targeted to those most in need, simple so that it can be introduced quickly, scaled to the necessary size, and priced to compensate the public for the risk of allowing firms to borrow using the government's guarantee. The group also thought that it makes sense to leverage existing lending relationships to operate the facility given lending officers know their clients' financial situation better than if the government tried to operate it on its own. It debated how best to incent lenders to extend credit prudently under this facility given the extreme uncertainty present in the crisis as well as with respect to what business conditions will look like after the virus has been contained. In addition, there is the need to ensure that borrowers use the funds received to help resolve the crisis, continue to pay their own suppliers promptly, and be prepared to resume more normal activity as the crisis passes.

Other issues flagged by working group members included where such a facility would sit in relation to other borrowings incurred by firms from a credit hierarchy perspective, how the facility would be managed as part of the government's own financial obligations, and how such a facility would fit within the broader range of measures that are being introduced by all levels of government to moderate the economic fallout from the crisis.

In general, there was interest and support for a proposal of this nature. If the issues highlighted in this Communique can be resolved, the working group believed this credit facility could be beneficial to the economy in this unique crisis.

The Monetary and Financial Measures Working Group will meet again Monday, March 30th, 2020 at 3pm. Much is likely to change between now and then, so we want to give ourselves flexibility to offer timely advice as circumstances change. That said, some areas for consideration raised by members included what is happening in other jurisdictions and how this could affect the credit situation in Canada, how will the government debt incurred through this crisis be financed, and how can we can place the real economy on a solid footing for when things start back up.

Monetary and Financial Measures Working Group members include:

David Dodge, Co-Chair, former Governor of the Bank of Canada

Mark Zelmer, Co-Chair, former Deputy Superintendent, OSFI

Riaz Ahmed, TD Bank

Steve Ambler, Universite du Quebec a Montreal

Dwight Duncan, McMillan LLP

Paul Jenkins, Former Senior Deputy Government, Bank of Canada

Phil Howell, Former Superintendent, FSCO

Thor Koeppl, Queen's University

Andrew Moor, Equitable Bank

Tamara Vrooman, VanCity

Jeremy Kronick, C.D. Howe Institute

Duncan Munn, C.D. Howe Institute