

Written evidence submitted by Dr Rama Kanungo (COV0093)

I work as a Lecturer in Accounting and Finance at Newcastle University London. I am also the Director of MSc Banking & Finance Programme. Much of my research is driven by the more realistic, fundamental and empirical process of decision-making, that is surrounded by analytical and computational queries to study Market dynamics, Risk and Liquidity, and Economic consequences. Particularly, how market anomalies can explain the default market-momentum. My current research aims to study “Black Swan” events effect on wider economy.

Archival evidence suggests, whenever there is an unprecedented scale of pandemic, the social purpose, economic remits, and moral essentials of human society have been largely affected. The latest outbreak of COVID-19 started in China has much more wider implications than it has previously been perceived by the governments, media and business communities across the world. As it stands now, the UK is one of the severely affected countries resulting in almost 30,000 corona virus deaths, highest among all the European countries. The daily death toll is still rising, although there are some days showing varying respites.

However, before detailing the written evidence, I would like to draw the attention of the Select committee by documenting a snapshot of Chinese economy around COVID-19 outbreak.

Employing four key economic indices, i.e. GDP, consumption, investment and export, the State Council of the People’s Republic of China (2020) and other Chinese economic forums¹ analysed the impact of COVID-19 on the Chinese economy. The government believes that the investment and exports can be well controlled by advancing fiduciary responsibility, creating consolidated funds, amortizing pension, relaxing export licensing. As for consumption, there will be a slump in the short-term, but the consumption will surge in log-term once the lockdown gradually ceases and normal transactions resume.

¹ a) The State Council of the People’s Republic of China. (2020) *Overall Plan on Control of COVID-19 and Future Economic Development*, Beijing: The State Council of the People’s Republic of China.

b) Wanbo Institute of Economic Research (2020) *Economic outcome of COVID-19*, Beijing: Wanbo Institute of Economic Research.

c) Hengda Institute of Economic Research (2020) *The long-term social influence of COVID-19*, Guangzhou: Hengda Institute of Economic Research.

A similar view is resonated by the People's Bank of China, China's central bank (2020). However, the People's Bank of China suggests that COVID-19 will bring a sizable negative shock to the economy in a short-term. In the long-term, it will not bear significant impact on the GDP if the government and central bank strategize to work together, particularly complimenting policy guidelines . By late March, the pandemic was almost under control, and the domestic economy registered a narrow negative shock, i.e. the macroeconomic environment recorded a 0.4% slump.

Written Evidence on the Impacts on Businesses and Workers

1. What impact will the global COVID-19 pandemic have on UK businesses, in the short, medium, and long-term?

Having limited working capital, most small and medium businesses will be facing liquidity constraints in short-term, as they rely on incoming revenue to service the debt. Tertiary sector firms will be affected severely, followed by primary and secondary sectors. Without physical transactions and face-to-face interaction most of the businesses will be experiencing strained customer relationship and facing hard-to-handle trading partners, both in short and medium turn. The long-term impact, however, would be far wider as policy deglobalisation as a consequence of the pandemic may hinder the prospect of trade and supply-chain integration capabilities. Financial intermediaries and regulators are highly likely to factor pandemic-induced shocks into their future risk assessments and stress tests, leading to selective lending and borrowing. This may result in contractionary economy, as opposed to stabilising programmes already in place. Further, aggregate output may also suffer if limited governmental intervention takes place. The UK should follow a protocol benchmark using respirometry-based control strategies, i.e. an economic index including weighted investment and operating costs combine together to assess the wider economic impact on businesses. Moreover, the government should slower the transmission of shock effect, as classic mechanism of shock transmission is the sudden stop of capital flows. Constraint or marginal capital flow will affect the balance of payment triggering weak investment stimulus.

In addition, the government should heighten the preparedness for any potential relapse of such pandemics. Coronaviruses are zoonotic and are a large family of viruses that cause illness ranging from the common cold to more severe diseases, such as MERS and SARS. Thus, a tripartite collaboration between government, academics and practitioners should be established to examine, formulate and address issues arising from pandemics. A recent study published in the Lancet Public Health cautions²—

“We built an age-specific and location-specific transmission model to assess progression of the Wuhan outbreak under different scenarios of school and workplace closure. We found that changes to contact patterns are likely to have substantially delayed the epidemic peak and reduced the number of coronavirus disease 2019 (COVID-19) cases in Wuhan. If these restrictions are lifted in March, 2020, a second peak of cases might occur in late August, 2020. Such a peak could be delayed by 2 months if the restrictions were relaxed a month later, in April, 2020.”

2. How effectively has the Government responded to the short-term negative impact of the pandemic on UK businesses? What further steps could be taken to mitigate this impact?

So far, the government has undertaken several effective measures in response to mitigating short-term negative impacts of COVID-19 covering all aspects of UK life.³ However, it is too early to foresee the potential positive results. The S&P estimates that systemwide UK domestic credit losses will rise to £18.5 billion this year, or 100 basis points (bps) of domestic lending—more than four times the level last year. As the economy recovers, we estimate that credit losses will fall to 60 bps (close to their long-term average) and then to 35 bps in the next two years. The S&P further expects a deeper two-quarter recession in the eurozone with full-year growth falling by 7.3%.

The PWC summarises key governmental business support initiatives as below⁴

² <https://www.sciencedirect.com/science/article/pii/S2468266720300736#cesec10>

³ <https://committees.parliament.uk/work/184/home-office-preparedness-for-covid19-coronavirus/publications/written-evidence?page=5>

⁴ <https://www.pwc.co.uk/covid-19/covid-19-uk-government-supported-financing-tax-liquidity-options.pdf>

Significant government-backed measures have been introduced to provide funding and other support to businesses:

- The UK government has introduced a raft of initiatives aimed to help companies through this difficult period.
- The measures can be split broadly into two categories:
 - Funding-based initiatives which aim to bolster cashflow and liquidity position in the short to medium term.
 - Tax or grant based initiatives which aim to alleviate cost pressure and preserve cash.

While there is initial guidance on a number of these measures, given the rapidly evolving market backdrop, the details on how they will work in practice are still in flux.

This document looks to provide companies with an overview of the various government-backed initiatives which are available, as well as some practical guidance on how to assess and access the funding support needed to navigate through this challenging period.

Overview of government initiatives and cashflow considerations

A number of government initiatives have been put in place to support SMEs and large corporates which have been impacted by COVID-19

Funding-focused initiatives

The government has committed to providing a significant funding package to support UK businesses. There are two main debt based funding initiatives available to companies depending on their size:

- COVID-19 Corporate Financing Facility (CCF):** aimed at larger corporates which are strong credits (investment grade) but experiencing liquidity pressures due to the impact of COVID-19. The CCF will allow large corporates to access short term financing through issuing Commercial Paper (CP). The fund will be managed and administered by the Bank of England (BoE) on behalf of HM Treasury.
- Coronavirus Business Interruption Loan Scheme (CBILS and CBILS):** building on infrastructure which is already in place, these schemes are available to provide a range of financing support over the short to medium term. They will be administered by the British Business Bank, with funding provided by a range of lenders which will benefit from a government guarantee.

In addition, on 20 April the Government announced a further scheme aimed at supporting companies which may be ineligible for the above schemes (e.g. due to reliance on equity funding) by providing convertible loans of up to £5m (to be matched by private investment). The scheme launches in May 2020 and initial eligibility criteria are detailed on the [Future Fund website](#).

Tax-based and other initiatives

- VAT deferrals and Time to Pay support.
- Business rate reductions or holidays.
- Employer grants to pay salaries and refund of Statutory Sick Pay.
- Additional support for specific sectors.
- Cash grants for small businesses.
- Business interruption insurance.

Rapid cash forecasting and conservation

COVID-19 is having far reaching implications for the global economy whilst organisations are experiencing significant operational, financial and liquidity issues.

It has never been more important to have a robust cash forecast to provide clear transparency on liquidity. To help, we've provided a sample of actions you might consider in this document, and would be happy to provide more detailed guides upon request.

More information on COVID-19 UK measures are on our website.

www.pwc.co.uk/COVID-19

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Nevertheless, the funding support eligibility criteria are stringent, and need much more clarity.⁵

Businesses should consider a number of positions prior to seeking the COVID financing facilities:

- How can they fit their existing financing arrangement with the governmental intervention?
- How do they demonstrate their short-term credit strength?
- What are their options if their businesses are not investment grade – how can they access this scheme? What else should they be considering?

Further steps could be taken to mitigate this impact:

- Sector-specific financial support.
- Enhance funding for R&D and technology driven platforms
- Accelerated depreciation for firms.
- Reduce fixed charges, taxes and credit forbearance.
- Corridor supply-chain contagion.
- Provide market substitution of goods and commodities.
- Create micro and meso lending channels

⁵ <https://www.gov.uk/government/news/coronavirus-business-support-to-launch-from-today>

- h) Revaluated the furlough scheme by allowing only 20% of workforce ceiling for any given businesses. Also, for large businesses cost of furlough should be reclaimed from the businesses once they make 80% of the profit of the previous year.

3. *How effectively has the Government responded to the short-term negative impact of the pandemic on workers? What further steps could be taken to mitigate this impact?*

The government has taken several efficient measures to mitigate the short-term negative impact of the pandemic on workers. Workers and labour productivity are closely related; thus, any missed days of work can potentially impute normal flow of income. The International Labour Organization (ILO) recommends— Tripartite social dialogue between governments and workers' and Employers' organisations is a key tool for developing and implementing sustainable solutions, from the community level to the global level.⁶

Further steps to be taken:

- a) Enhanced absentee payroll support for workers.
- b) Subsidised short-term employment schemes.
- c) Tiered-approach to protect unprotected workers, including the self-employed, casual and gig workers by offering them some form of income-smoothing incentives.
- d) Develop scheme to address disproportionate burden in the care economy, where women workers should be given priorities (58.6% of global care workforce accounts for women⁷).
- e) Migrant workers should be encouraged to take short-term alternative works.
- f) Engage local authorities via online platform to build trust and confidence in workers.

⁶ https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_738753.pdf

⁷ ILO (2018) Care work and care jobs for the future of decent work. ILO, Geneva.

4. *What medium- and long-term negative impacts could arise from the pandemic for UK businesses? What steps could the Government take to mitigate these impacts?*

The tertiary sectors, i.e. all service provision industries will experience more of short and long-term negative impacts compared to primary and secondary sectors.⁸ For example, an estimate in the UK suggested that protracted closures of school could cost 3% of UK GDP.⁹ Further, the bond markets could have difficulties in coping with large scale government bond issuance and that central banks may have to intervene by purchasing these bonds on an unprecedented scale.¹⁰

However, the UK has announced a £330bn package of emergency loan guarantees to help those in financial difficulty. An additional £20bn of fiscal support on top of the £7bn financial support package already issued in the preceding weeks in an attempt to save UK businesses.

The package of measures includes:

- A Coronavirus Job Retention Scheme
- Deferring VAT and Income Tax payments
- A Statutory Sick Pay relief package for SMEs (Small and Medium sized Enterprises)
- A 12-month business rates holiday for all retail, hospitality, leisure and nursery businesses in England
- Small business grant funding of £10,000 for all business in receipt of small business rate relief or rural rate relief
- Grant funding of £25,000 for retail, hospitality and leisure businesses with property with a rateable value between £15,000 and £51,000

⁸ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7162753/>

⁹ Keogh-Brown M.R., Wren-Lewis S., Edmunds W.J., Beutels P., Smith R.D. The possible macroeconomic impact on the UK of an influenza pandemic. *Health Econ.* 2010;19(11):1345–1360.

¹⁰ The economic impact of coronavirus: analysis from Imperial experts | Imperial News | Imperial College London [Internet]. Imperial News. [cited 2020 Apr 6]. Available from: <https://www.imperial.ac.uk/news/196514/the-economic-impact-coronavirus-analysis-from/>

- The Coronavirus Business Interruption Loan Scheme offering loans of up to £5 million for SMEs through the British Business Bank
- A new lending facility from the Bank of England to help support liquidity among larger firms, helping them bridge coronavirus disruption to their cash flows through loans
- The HMRC Time To Pay Scheme

So, what further steps could the Government take to mitigate these impacts?

- a) Implementing cause-related social measures to curb home isolation issues that can have implied effect on work and businesses.
- b) Temporary ban on foreclosure due to default mortgage, i.e. beyond mortgage lenders allowance of a three-month mortgage holiday. Reduce deposit amount for new mortgage approval.
- c) Additional health-care support to low-income and migrants' families working for SMEs.
- d) Redrafting business lease provisions and offering tenure protection.
- e) Deferring tuition fee provisions for the university students.
- f) Improving logistic for pharmaceutical ingredients for pharmaceutical industries.
- g) Reallocating jobs for the workers lost their jobs in tertiary sector.
- h) Enhancing the storage capacity to address low inventory and redundant stockpile issue of food industries.
- i) Offer staggered release of sporting events for the sports industry.

5. *How should The Department for Business, Energy and Industrial Strategy (BEIS) work with the rest of central government, as well as devolved, local and regional government, to deliver a coordinated response to the pandemic?*

The Department for Business, Energy and Industrial Strategy (BEIS) should work with the rest of central government, as well as devolved, local and regional government in a consultative and collaborative ways. Such as:

The Department for Business, Energy and Industrial Strategy (BEIS) should set-up three committees-

- 1) Strategy Committee- including representatives from the central, local government and 12 members from academia as well as industry to prepare economic strategy based on data and available information.
- 2) Operational Committee- including representatives from central, local and 15 members from industry to manage strategy and implement of policies.
- 3) Sectoral Committees- 7 sub-committees at universities to conduct advanced research on all aspects of the pandemic effect, i.e. medical, social, technological, economic/trade and political.

Committees should be set-up for maximum 12-18 months with full-economic cost support. There will be 4 meetings a year and each committee will produce both interim and final reports in every six-months. The meetings will be conducted via online platform covering full day activities, i.e. discussing issues, presenting research findings, and suggesting workable solutions.

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