

Minister of Finance – Statement on the Economic Response to COVID-19

Tuesday 17 March 2020

Mr Speaker, I know that every member of this House, whatever our political differences is here because we believe in this country and our people. Today, we face a challenge that requires us to harness every bit of that spirit and give our total commitment to protecting the health and wellbeing of New Zealanders.

That commitment is of the utmost importance as New Zealand faces its greatest health and economic challenge in over a generation.

Our response in these times must be to put our people first. This period of time will be a test of our resilience but also of our commitment to each other. He Waka Eke Noa. We are all in this together.

Today's economic package is about cashflow and confidence. It is only the beginning of what this government will do to support New Zealanders through this time of crisis and lead our recovery and rebuilding.

We will fight this virus.

We will cushion the blow for businesses and workers

We will position for recovery.

We have been and we will be swift, decisive and compassionate.

Mr Speaker, the global COVID-19 pandemic is wreaking havoc around the world. The virus' exponential spread has seen whole countries shut down in their attempts to slow and contain the spread. The result has been unprecedented economic and social disruption right across the globe.

And we are not immune of course. I cannot, and must not sugar coat this. A recession in New Zealand is now almost certain, with the advice that we are receiving that the shock will be larger than that seen during the Global Financial Crisis.

This will affect every part of our economy, now and for some time to come. We are going to see many New Zealanders lose their jobs, and some businesses fail, we will have an extended period of deficits and our debt as a country will have to substantially increase.

Our package announced today, and the support that will continue to come will do all we can to cushion the blow.

It is heartening though Mr Speaker that we face this with our books in good shape. We have kept net debt low at 19.5%, which is lower than we inherited it. We have worked hard to be ready for the rainy day that has now arrived.

There is no costless decision in this situation. The economic impacts of the spread of COVID 19 were clear before our decision to extend border restrictions. I stand by the wisdom and courage of that decision. We are taking decisive action to avoid what we have seen overseas and implement measures that give ourselves a fighting chance of mitigating the worst here – and I make no apologies for that.

Whatever costs we are now dealing with pale in comparison to the loss of life and devastation that would come with inaction.

Clearly there are tough times ahead. I acknowledge the anxiety and uncertainty many will be feeling right now. I want to say directly to those people- we will get through this, together.

The Government's Economic Response Package is the largest investment in our lifetimes, designed for the unique nature of the disruption caused by COVID-19. It comes on top of the \$12 billion NZ

Upgrade programme. I want to thank New Zealand First and the Green Party for their work in helping put this package together.

The overall investment in the Economic Response Package is \$12.1 billion across the forecast period, one of the largest response packages in the world on a per capita basis.

To give you an idea of the scale the package I am announcing today it represents nearly 4% of GDP and more than the total of all of the new operating spending in the three Budgets in this term of government put together.

The package has three components:

- Extra support for the health system to enable an increased public health response so New Zealand can slow any potential domestic outbreak,
- A substantial package to cushion the impact of the economic shock on businesses and workers, and support confidence in the near term; and
- The first phase of a broader recovery package to support household incomes through the shock and to spur the economic recovery.

Obviously the ultimate recovery package will go beyond these measures, and this year's Budget to be the second phase of the broader recovery package.

Our first response is a public health one. It is our fundamental duty. It is also the first and best economic response. The hard work and dedication of our health workforce, and the personal responsibility that New Zealanders are showing with regard to protecting themselves and others is a great first line of defence. We must continue that work to smooth the curve of the inevitable increase in infections.

Today's package includes a commitment of an additional \$500 million to support our 'Go hard, Go early, Contain COVID-19' strategy. There will be further support to come. Under this plan the health system is increasing capacity and capability. This will mean:

- Scaling up public communications to ensure people have practical advice and support to contain the virus and stay healthy, and on how to self-isolate.
- Ensuring continuity of care in the community. This has two elements: surging support for vulnerable populations, and supporting the health workforce to respond.
- Strengthening our ability to test and trace cases in communities.
- Strengthening our ability to treat cases – in both the community and in hospitals.

To achieve this, our actions over the next 30 days will be split into two phases:

- Immediate actions include a public information campaign, upscaling testing, boosting Healthline, surging containment and isolation procedures, establishing Community Based Assessment Clinics, and a whole-of-system focus on meeting workforce demand and PPE needs.
- Our Medium-term actions include further support for hospitals and community providers to deal with a surge of patients, including further advice for caring for people at home.

Mr Speaker I want to pay tribute to the health professionals and staff who are working around the clock to protect New Zealanders well-being. We owe you so much and today's package is just the first sign of our support for your work.

In addition to the significant boost to the health system I have mentioned we are also introducing a COVID-19 leave payment scheme to incentivise self-isolation by employees, the self-employed

and contractors. Self-isolation is critical to the success of our public health strategy, and we know that some workers are facing financial barriers to self-isolation.

This scheme will provide support through employers (and to sole traders and the self-employed) for those people unable to work who are either in self-isolation, are sick or are caring for dependents who are in either of these situations. Employers will still be expected to meet all of their sick leave and other employment expectations. The key parameters for the scheme are:

- An entitlement period of 14 days for those self-isolating, and for the entire period of sickness for those who contract COVID-19.
- Eligibility is open to all firms, the self-employed, and for contractors, but not for those who can work from home.

Full time workers will receive \$585 per week under the scheme.

The scheme will be in place for an initial 8 week period, at which point the Government will reassess based on the health situation at the time. Employers will have to sign a declaration confirming that they meet the criteria for receiving this funding. Any false declaration would be committing fraud.

Given the size and speed of the economic shock we are facing, we recognise the immediate need to support businesses and workers to cushion the economic impact on households and firms. We want to help boost both cash flow and confidence in the economy through this uncertain period. That is why we are establishing a wage subsidy scheme.

The scheme will help keep people attached to their workplace, so that both workers and businesses are in a better position to adjust to the difficult prevailing economic conditions.

The scheme will be available to all businesses in all sectors nationwide, and includes the self-employed and sole traders.

Eligible firms will be provided a lump sum payment of the equivalent of \$585 per week per full-time employee and \$350 per week per part time employee for 12 weeks up to a cap of \$150,000.

To qualify businesses must declare they have had a 30% decline in revenue due to COVID-19 month-on-month for any month between January and June this year (compared to last year), and that they have talked to their bank about assistance.

Employers can make applications for the scheme from today by filling out a simple form on the Work and Income website and making a declaration. The Ministry of Social Development have advised us that they will be able to make payments starting in five days time.

At this point I want to acknowledge the extraordinary work by the Ministry of Social Development and other public servants in pulling this package together under incredible time constraints. I ask everyone for patience in working with our public servants at this stressful time.

Depending on uptake, this package could inject up to \$5.1 billion into the economy over the next two months.

Where possible, we want to keep people actively engaged with the labour market, or in training to smooth their return to work. To support this we have established a \$100 million funding to support worker redeployment and training. The first announcement on this will be a package for the Tairāwhiti region in the coming days.

The Government is undertaking work on how to support large and complex employers on a case by case basis.

The Government is also actively working in partnership with the banks to understand the impact of Covid-19 on access to working capital for businesses.

We recognise that it is in the interests of businesses, banks and the government to work together to support firms through this situation.

In collaboration with the banks we will monitor pressure points as they emerge, and we reinforce the NZBA message advising any business facing issues to talk with their bank for advice and support.

The decisions of the Reserve Bank to cut the official cash rate, and to delay the introduction of the new capital requirements for banks frees up banks to further support customers. I continue to urge banks and customers to talk now about their plans to get through this crisis. The government and the Reserve Bank are coordinating our actions to support the overall stability of the economy.

Today's package also contains an indicative investment in our aviation sector that will be finalised in the coming days. It is essential that we keep open air routes to support returning New Zealanders and to keep vital supply chains open, and that we support essential services at and around our border.

Mr Speaker, today's package also implements a number of tax changes to help increase businesses' cash flows and stimulate investment. The changes include:

- The reinstatement of depreciation deductions for commercial and industrial buildings at a 2% diminishing value applying from the 2020-21 tax year (generally beginning next month);
- Increasing the threshold for provisional tax from \$2,500 to \$5,000 applying from the 2020-21 tax year (generally beginning next month);

- Increasing the threshold for writing off low value assets to \$5,000 for the next tax year, before reverting to \$1,000 in the longer term;
- Giving a time-limited discretion to Inland Revenue to remit use of money interest (the interest on tax debt) if a taxpayer is unable to pay on time due to the impacts of COVID-19.

We also recognise that the Government must provide further support to boost the economy to ensure that a recovery takes and support our most vulnerable at this time.

This first part of the package comprises:

- A \$25 across the board permanent increase to main benefits, from 1 April 2020;
- A doubling of the amount paid in 2020 through the Winter Energy Payment; and
- Removing the hours test from the In Work Tax Credit to assist those who may face variable hours.

The ultimate recovery package will go well beyond these measures, and I intend to re-orient this year's Budget to be the second phase of the broader recovery package.

Today is not the day to go into further detail about the recovery and re-building phase. But for now let me say this. In New Zealand we have been here before with major economic and social crises. In my lifetime we have seen governments respond with austerity and ideology that has done enormous damage to the fabric of our society.

But we also have other examples such as the first Labour Government who responded with investment, pragmatism, optimism and kindness. It is from them that I take my lesson on how we recover and rebuild in a just, fair and far-sighted manner.

Mr Speaker we are in for a fight. A fight against a virus, an outside force beyond our control that is wreaking havoc around the globe. We are up for the fight. There is no better defensive line than the All Blacks. Just is it as with our people facing this virus.

We are in as good a position going into this as we can be.

We are taking bold and decisive actions to respond to uncertain and unprecedented times.

My message to New Zealanders is simple. Look after yourself, look after your family, look after our elderly. Look out for each other.

There are tough days ahead, but we will get through this together.