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BoC, GoC and OSFI go all in to support business credit

- Bank of Canada cuts overnight rate by another 1/2 percent
- Government credit facility to provide $10 billion in lending
- OSFI lowering capital requirements to support bank lending
- More fiscal stimulus to be announced next week

This afternoon, in a coordinated response to address the economic impact of the coronavirus outbreak and oil price shock, the Finance Minister, the Governor of the Bank of Canada, and the Superintendent of Financial Institutions announced a number of new policies. Detailed below, these measures are generally meant to improve the flow of credit to Canadian businesses. Some firms are likely to face a cash crunch as their operations are disrupted by efforts to contain the coronavirus outbreak. The policies announced today will help ease that source of stress and bridge the gap until economic conditions improve. But they won't keep Canada's economy from tipping into recession this year.

The Bank of Canada cut its policy rate by another 1/2 percent, matching the reduction it announced last week and bringing the overnight rate down to 0.75%. This move came slightly earlier than we expected but is in line with our forecast for an eventual cut to 0.25% by mid-year. While monetary policy may not be the best tool for dealing with current economic challenges, there is little reason for the BoC to keep its powder dry at this point. Alongside the rate cut, the central bank announced a new banker’s acceptance purchase facility (BAPF) that is intended to improve funding conditions for Canadian businesses (Governor Poloz noted recent signs of stress in this market). This follows announcements yesterday intended to improve liquidity in other funding markets.

Also in support of business financing, the government is rolling out a credit facility program that will provide $10 billion in funding (through BDC and EDC) for Canadian businesses. A similar program during the last recession provided $11 billion of credit, including billions for SMEs. This announcement follows $1 billion of funding for the country’s public health response outlined earlier this week, which came with some modest measures to support disrupted workers. Finance Minister Morneau said the government is preparing more significant stimulus that will be released next week—that package is likely to include much more support for Canadian households.

The final bit of stimulus came from OSFI, which lowered capital requirements for the Big 6 Canadian banks. By reducing the domestic stability buffer from 2.25% to 1%, OSFI says banks’ lending capacity will increase by more than $300 billion. Similar reductions in capital buffers were announced by the Bank of England and European Central Bank earlier this week.

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