

Opinion **Coronavirus****Bold steps to pump coronavirus rescue funds down the last mile**

Central bank liquidity has to reach affected individuals and companies urgently

AGUSTÍN CARSTENS

Agustín Carstens: the formal banking sector is a smaller part of the financial system, while market-based finance has become more important © FT montage; Bloomberg

Agustín Carstens 4 HOURS AGO

This article is part of [a series](#) in which leading commentators and policymakers give their views on alleviating the devastating global slowdown

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The financial turbulence unleashed by the coronavirus pandemic revives unhappy memories of the 2008 financial crisis. The outward symptoms of falling asset prices and tighter credit conditions are similar, but there are important differences. These differences matter, as the response now needs to go beyond the earlier playbook.

Central bank interventions to quell the crisis need to reach the individuals and businesses who are ultimately affected. The last mile of this channel is not yet in place and needs to be bridged urgently.

One key difference between the current crisis and 2008 is the set of players involved. That event was a global banking crisis with overleveraged lenders at its centre. Central banks had direct levers to address banking stress by providing funding to distressed banks or by purchasing assets.

This time, the formal banking sector is a smaller part of the financial system, while market-based finance has become more important. The heft of institutional investors and market-based intermediaries has grown, and real economy businesses have become more reliant on them. This is one reason why the strains this time are showing up in funding markets such as [commercial paper](#), and the [corporate bond market](#).

Businesses large and small need working capital, especially when they are part of a supply chain. A company's short-term assets, such as receivables — the money owed by other businesses in the production chain — constitute a substantial part of total assets. These receivables are matched by accounts payable on the liabilities side of the balance sheet. The interlocking chain of receivables and payables is the glue that holds businesses together in an economy, not to mention global supply chains. And businesses have increasingly turned to market-based funding for working capital, and in US dollars for global value chains.

Current supervisory tools were designed to restrain banks from overextending themselves. Right now, we have the opposite problem: banks are not filling the void left by the retreat of market-based finance. To give viable businesses a lifeline to tide them over the economic sudden stop wrought by Covid-19, a solution is needed to complete the last mile from potential lenders to those firms at the edge of the precipice.

Banks should be part of the solution, not part of the problem. Now is the time to draw on the accumulated balance sheet buffers that were built while the sun was shining.

To boost lending capacity further, we need a [global freeze](#) on bank dividends and share buybacks.

However, this first step may not be enough, as lenders pull in their horns and retreat from risk-taking. That's why there needs to be a second step of enlisting the banks to lend, using central bank funding for lending schemes. Risk sharing by governments through guarantee schemes is needed to ensure that economic risks are not pushed to banks or the central bank.

One way to do it would be to provide each small and mid-sized company with a government-guaranteed loan equal to the amount of taxes it paid last year. These "tax deferral loans" could be provided by banks upon simple evidence of taxes having been paid last year and then be refinanced, in a securitised form, through a central bank facility.

Losses would have to be incurred by the government — treasuries have to step in. Yes, there will be errors. But only SMEs that were profitable last year would be eligible for a government loan, limiting the scope for fraud or manipulation. The administration would also be relatively straightforward, as the tax authority would be able to verify.

We also need to prevent the glue that binds global supply chains from coming unstuck. This means taking these principles global. The [dollar swap lines](#) central banks have announced are essential. But, as in the domestic context, each central bank needs to channel its dollar liquidity towards preventing global supply chains from unravelling.

Concretely, government-guaranteed loans by banks to finance receivables could also be securitised and financed by a central bank facility. "Mind the last mile" is a motto that applies worldwide, not just to the domestic economy.

A crisis in market finance needs market-based solutions. For central bank liquidity to reach the far corners of the financial system, it must directly target individuals and businesses that need it most. Otherwise, central bank actions may be just pushing on a string. The 2008 playbook has some of the necessary tools, like the commercial paper facility, but is not sufficient. The US Federal Reserve's decision to [enter the corporate bond market](#) marks a bold step in the right direction. But more may still be needed to build the last mile to the small businesses at the end of the line.

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