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## UK: NEW JOBS POLICY WILL WORK ONLY IF THE UK AVOIDS NEW LOCKDOWN

### Berenberg Macro Flash

Today UK Chancellor Rishi Sunak announced new emergency support measures and extended existing ones to help the UK economy through the difficult months ahead. While the precise details of the measures have not yet been released, the centre piece is a new Job Support Scheme.

**How the Job Support Scheme works:** Following on from the Corona Virus Job Retention Scheme which ends on 31 October, employers will be able to claim wage support for workers on short hours for six months from 1 November. To be eligible, workers must be employed for a minimum of 33% of their normal hours. The government and the employer will then pay wages for 66% (shared equally) of the remaining hours not worked. Thus, if an employee works 33% of their normal hours, they will receive 77% of their pay (55pt paid by the employer and 22pt by the government). In his speech to the House of Commons, Chancellor Sunak said that the scheme will apply to all small and medium sized firms and large firms for whom turnover has fallen.

**In addition, Sunak announced that he would provide additional support to businesses' cashflow by:**

- Extending the self-employment income support scheme – which covers 20% of average monthly trading profits – until the end of 30 April 2021
- Extending the loan payment horizon from six to ten years for the business bounce back loans as well as extending the deadline to apply for such support to 30 November
- Allowing firms that have deferred VAT payments this year to split their payments into 11 smaller interest free payments instead of as a lump sum in March before the fiscal year ends
- Extending the VAT cut to 5% from 20% for tourism and hospitality until 31 March 2021 instead of 12 January 2021

While the wage subsidy scheme should help to reduce a likely spike in redundancies as the current employment subsidy scheme ends on 31 October, it will only work if the economy avoids a second lockdown.

Amid the renewed surge in COVID-19 cases in the UK, the near-term economic outlook has darkened materially. With luck, the modest new restrictions, including closing restaurants and pubs at 10pm, limiting the number of people in social groups, a return to home working for more office workers and stricter adherence to mask wearing will help to bring down the case load while not inhibiting economic activity so badly that the recovery stalls. However, if the UK is forced to lockdown after 31 October, a mere wage subsidy scheme that requires workers to be on at least 33% of their normal hours will not help those workers in sectors that are forced to shut down. During the first wave, that included all non-essential in store retail as well as restaurants, bars and entertainment. At peak, nearly a third of the labour force was on the scheme.

In case of a new lockdown, or a serious further tightening of restrictions, the chancellor may yet need to step up the emergency support, including more generous measures to support jobs.



## MACRO NEWS

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