Commonwealth Bank of Australia COVID-19 Support Update – September 2021

Submission to the House of Representatives Economics Committee

Commonwealth Bank continues to work with governments across the nation to support our customers and the community through the worst pandemic in a century. As rates of vaccination attain key thresholds, we look forward to Australians returning to a more recognisable way of life.

Keeping our people safe

The health and safety of our people, customers and communities remain our highest priority. We maintain strict safety, hygiene and physical distancing practices in all our workplaces. Our branches and commercial buildings adhere to National COVID-19 safe work principles, drawing on advice from each of the relevant health authorities in each instance.

In addition to maintaining a safe workplace, we are supporting our people through the pandemic and lockdowns by:

- Providing 10 days paid Special Leave to employees to supplement existing leave entitlements, in addition to any other leave entitlements staff may already have, such as personal illness or carer's leave;
- Making available a comprehensive range of mental health and wellbeing resources to our people, as well as support to help employees with any financial wellbeing difficulties. This includes a one-off, interest free pay advance of up to $2,000; and
- Communicating clearly about support for employees who are unwell and reporting if they are getting tested for COVID-19.

Flexibility and remote working are also key to managing building occupancy rates, to ensure we comply with physical distancing requirements. Prior to the most recent NSW and Victorian lockdowns, our people were returning to our office workplaces, with a hybrid or remote working pattern. Our approach is to balance customer, team and individual considerations, allowing for flexibility and remote working, managing building occupancy rates, while also building strong, supportive and resilient teams.

Vaccination program

Commonwealth Bank has opened dedicated vaccination centres across Greater Sydney, as part of an accelerated corporate vaccination pilot program to help vaccinate its employees, families and household members against COVID-19.

Following the successful opening of the first vaccination centre in Parramatta at the beginning of August, hubs are now operational in Bankstown, Hurstville, Auburn, Blacktown, Cabramatta, Liverpool and Campbelltown.

The pilot program is currently open on a voluntary basis with priority access given to those in customer-facing roles.

The vaccination program is being run by Commonwealth Bank's corporate health provider, Vitality Works, whose experienced team of nurses operate the bank's annual flu shot service.

Commonwealth Bank plans to extend the program nationally as more vaccine supplies become available. A survey of more than 11,000 bank employees last week revealed that almost 90 per cent of staff intend to get vaccinated.

The opening of the new centres coincides with the bank's rollout of rapid antigen testing for branch staff in Sydney's LGAs of concern.

Supporting our customers

Since the start of the pandemic, Commonwealth Bank has delivered a wide range of customer support measures to help our customers, including home and business loan deferrals, fee waivers, SME recovery loans and tailored support and assistance packages for customers experiencing ongoing hardship.

Commonwealth Bank also created a COVID-19 support page and sent personalised reminders, to help keep customers informed about the latest support measures that were available to them. More than 730 million in-app messages have been sent relating to COVID-19 support and information, while the Commonwealth Bank COVID-19 support website has received in excess of 6 million page views.

Supporting our retail customers

We have prepared a range of support measures to help our retail customers, particularly those customers facing additional challenges arising out of the current restrictions.

We continue to offer our coronavirus hardship support package, which includes:

- Accessing money customers may have available in redraw in their eligible loan;
- Restructuring home loan debt;
- Switching to a Fixed Rate home loan;
- Reducing repayments to the minimum monthly repayment amount; and
- Using money in an Everyday Offset (if available to the customer).

For customers impacted by the most recent lockdowns, we announced a range of support measures in June 2020; including access to a two-month deferral on home loan repayments. As at 31 July we had arranged deferrals on around 6,800 home loans.[1]

Our earlier temporary loan repayment program for home loan lending ended in March 2021, having enabled approximately 158,000 temporary home loan repayment deferrals between March 2020 and January 2021. As at July of this year:

- ~123,000 of these deferrals had returned to performing;
- ~13,000 were voluntarily closed;
- ~7,000 switched to interest-only;
- ~8,000 refinance; and

[1] Includes all COVID-19 related deferrals granted from June 25 2021.

- ~5,000 customers were receiving hardship assistance.

The bank has grown its financial assistance teams by more than 1,000 people, and introduced new digital features in a bid to help customers better manage their finances.

We have also announced that we are extending our freeze on forced sales until at least February 2022 for customers significantly impacted by the latest restrictions and who are unable to make home loan repayments.

Supporting our business customers

Commonwealth Bank remains firmly committed to supporting the SME sector, which is vital to the country's economic recovery.

Over the past month we have connected with more than one million small to medium sized business customers to alert them to the support available, such as fee refunds or waivers, repayment deferrals, and bridging finance. Customers are telling us their key concerns continue to be about cash flow management, managing suppliers, and keeping staff employed.

For eligible customers, the support for small and medium sized businesses includes:

- Repayment deferrals on asset finance and business loans;
- A refund of merchant terminal fees for up to 90 days for customers;
- A waiving of fees and notice periods on Cash Deposit and Farm Management Deposit accounts;
- Commonwealth Bank loans provided through the Federal Government-backed SME Loan Recovery Scheme. These loans, available to eligible businesses, can be up to $5 million with variable interest rates from as low as 2.6% p.a. for secured loans, and from 2.85% p.a. for secured loans with a delay in repayments for 12 months. Unsecured loans are available with rates from 3.25% p.a., and from 3.75% p.a. with a delay in repayments for 12 months;
- Access to a range of tailored grants and benefits specific for businesses;
- A Financial Support Guide outlining a range of initiatives that have been announced by the Government and Commonwealth Bank to help businesses, community groups and individuals understand the options available;
- Free counselling services; and
- Free mental health webinars facilitated by Smiling Mind.

Of the deferrals put in place in response to lockdowns in 2020, over 90 percent have now exited deferral.

Commonwealth Bank welcomes the Government's expanded SME Recovery Loan Scheme (SMERLS), encouraging Australian businesses to take advantage of the support measures currently available through both bank and government initiatives. We have funded over $1.9 billion under the various iterations of the Government's SME Guarantee Scheme loan scheme, since they were introduced in 2020.

The expansion of funding through SMERLS means that any business with annual turnover of more than $250m that has been impacted by the Coronavirus pandemic is eligible to borrow at record low rates. Borrowers can also pause repayments on eligible products. As part of the most recent round of lockdowns, as at 31 July we had offered 240 deferrals on business loans.[2]

Throughout the current lockdown, Commonwealth Bank has delivered a free webinar series for businesses, providing economic updates from Commonwealth Bank Chief Economist Stephen Halmarick and outlining the support available through Commonwealth Bank and the government, and responding to customer questions.

Attached to this update is recent research from the Commonwealth Bank Economics team, with an outlook for the economy.

We have been working collaboratively with state governments so businesses can hear first-hand about government support and how to access it, with localised insights on the impacts of business interruptions and detail on how we can assist.

As a further means to support small business, Commonwealth Bank has also moved to update one of its digital features to help make it easier for business owners to understand and connect to state and federal COVID-19 support measures they may be eligible for.

The Benefits finder digital feature has been extended to now include more than 58 benefits for businesses – providing small businesses across the country with access to a personalised collection of benefits based on their needs and location. The 58 business-specific benefits are in addition to more than 270 benefits and rebates already available for personal banking customers – many of which are pandemic-related, including the Pandemic Leave Disaster payment.

Since its launch in September 2019, customers have commenced more than 1.5 million claims via the Benefits finder feature and saved more than $481 million.

With almost one third of businesses saying accessing and applying for grants and benefits is one of their biggest challenges, the newly enhanced Benefits finder digital feature helps small businesses identify what benefits they may be eligible for and simplifies the application process so they can access much-needed funds more easily.

[2] Includes all COVID-19 related deferrals granted from June 25 2021.

Monthly Insights

8 September 2021

Stephen Halmarick
Chief Economist and Head of Global Economic & Markets Research

Australian Economy:

- GDP growth: Q2 21 0.7%/qtr, 9.6%/yr. F/c +3.0% 21, +4.0% 22.
- Unemployment: July 4.6%. F/c 5.4% end-21, 4.7% end-22.
- Inflation: Headline Q2 21 0.8%/qtr, 3.8%/yr. F/c 2.4% 21, 2.1% 22. Trimmed mean Q2 21 0.5%/qtr, 1.6%/yr. F/c 1.5% 21, 2.0% 22.
- Wages: Q2 21 1.7%. F/c, 1.9% 21, 2.4% 22.
- House prices: August +17.5%/yr. Dwelling prices expected to rise by 20% over 2021 and 7% in 2022, with houses outperforming units. Turnover has softened due to lockdowns.
- Consumer spending rose 1.1%/qtr Q2 21. All components of domestic demand were strong in the quarter. We expect GDP to contract in Q3 21 by a very large -4½% because of the extended lockdown in NSW and Vic.

RBA:

- The RBA started the journey to unwinding parts of its unconventional monetary policy in July and, a little surprisingly, this was reinforced in August and September.
- The cash rate remains at 0.1% (ES 0%) and the RBA continues to signal that the conditions needed to raise the cash rate are unlikely to be met until 2024.
- We expect the first rate hike in May 2023 and see the cash rate target peaking at 1.25% in 2024.
- The TFF ended 30 June, with $A188bn drawn down.
- The YCC 0.1% target will remain at the Apr 24 bond.
- In September the RBA stated that QE3 will be $A4bn/wk from Sept '21 to Feb '22 a 'taper' from the previous $A5bn/week rate. The RBA also noted that the "setback to the economic expansion (from delta and lockdowns) is expected to be only temporary.

AUD:

- Spot $US0.7390. F/c $US0.72 year-end 2021 and $US0.75 Jun-2022.
- The risks facing AUD are balanced. Slowing Chinese economic momentum and the negative Aust-US 10yr bond spread are weights on AUD. But the risk the FOMC delays its taper announcement and significant AUD undervaluation are upside risks.
- We still expect AUD to recover over 2022, supported by the global economic recovery.
- Our May 2023 rate hike view is earlier than the RBA's current forward guidance and this could also act to support the AUD in the year ahead.

Bond & swap:

- BBSW remains low. Floating rate borrowers face little risk in the near term, as expectations of a RBA rate hike have been pushed out.
- Our target for the ACGB 10Y at 1% came very close, but has subsequently reversed. We expect 10Y yields to trade 1.4% at year-end '21 and 1.7% year-end '22.
- 3Y IRS f/c at 0.5% end-21, rising to 0.9% end-22. 3m BBSW at 0.01% for end-21, while the end of 2022 sees BBSW at 0.15%.

Commodity prices:

- Iron ore fell 16% in August on demand concerns re proposed steel output cuts in China. Downside risks to f/c $US170/t Q4 21.
- Coking coal jumped 20% in August on supply shortages in China and rising demand ex-China. Upside risks to f/c $US160/t in Q4 21.
- Thermal coal lifted 8% in August on stronger demand in Nth Asia and EU and constrained supply. Upside risks to f/c $US100/t in Q4 21.
- Spot LNG prices rose 24% in August on winter restocking demand in Nth Asia and gas shortages in EU. Upside risks to f/c $US8.5/mmbtu in Q4 21.

Credit markets:

- Credit spread volatility remains low. Financial spreads out-performed even though bank issuance has started to increase post the TFF.
- The reporting season had little impact on spreads. Corporate balance sheets remain in good shape although a few sectors will continue to face challenges due to COVID lockdowns.
- We expect non-financial issuance to increase, as companies express interest in taking advantage of the low interest rate environment.

States:

- Q2 21 state final demand rose in all states & territories. NT (5.3%/qtr) and NSW (2.2%) led the way, while growth was slower in WA (1.2%), Tas (1.4%), Vic (1.4%), SA (1.8%) and Qld (2.0%).
- Our card spending data shows sharp falls in spending in states under lockdown. NSW and Vic will be living with COVID on reopening, so it will likely take consumers some time to normalise spending behaviour once restrictions are eased.

World Economy:

- We f/c the global economy to expand by 6.5% in 2021 (was 6.6%), after -2.1% in 2020. We forecast a solid 4.3% lift in 2022.
- The global economic recovery is uneven. COVID outbreaks in the US and China have challenged their respective economic recoveries.
- As countries' vaccination rates hit critical thresholds, restrictions will be unwound and economic growth will gather pace.
- High consumer savings can support spending, but fear of catching the virus remains a downside risk.

The Fed:

- The FOMC appears to be less tolerant of an inflation overshoot than we expected. A majority of FOMC members expect to raise the Fed Funds rate twice in 2023.
- The upside risks to the US inflation outlook are growing. But the recent jump in Covid-19 cases is complicating the economic outlook.
- We now expect the FOMC will start to taper its asset purchases in Dec 2021, due to the slower than expected labour market recovery and rising infections. We still expect the FOMC will start to raise the Fed Funds rate in Q1 2023.

The USD and Bond market:

- EUR/USD spot 1.1845. F/c 1.13 year end-21 and 1.14 Jun-22.
- We f/c the US economy to grow by a strong 6.0% in 2021, but high COVID -19 infections risks slowing momentum into year-end. Consumer confidence fell sharply in August. Capacity constraints in some industries are also slowing growth.
- However, the vaccine rollout, fiscal stimulus and elevated consumer savings remain supportive of economic activity.
- US and global bond yields were generally higher in August. US 10Y yields are up to 1.37%, from under 1.2% in early August. We f/c US 10Y bond and swaps to trade in a 1.25%-1.75% range to end-22.

New Zealand

- Our ASB colleagues f/c NZ GDP to contract by 6%-7%/qtr in Q3 21 because of the COVID -19 outbreak and subsequent lockdown.
- GDP then expected to bounce back by 8%/qtr in Q4 21, as long as the lockdown is relatively short-lived.
- Prior to the lockdowns, the conditions for tightening monetary policy had been met.
- The RBNZ is now expected to lift the cash rate by 25bp to 0.50% in October 2021, assuming the lockdown is brief. ASB expect the cash rate to reach 1.50% by November 2022.

The UK

- We f/c growth of 5.3% in 2021 and 3.8% in 2022 for the UK. The rapid vaccination program and relaxation of COVID -19 restrictions is supporting economic activity. COVID -19 infections remain elevated, but are below the recent peak.
- We expect the BoE to maintain the bank rate at 0.10% for some time, the risk is an end to the QE program early.
- GBP can remain supported in the near term because of expectations that the FOMC will not announce its intent to taper in September. We still forecast GBP will fall towards 1.34 by year-end.

Europe

- We expect the EU economy to expand by 4.4% in 2021 and 3.9% in 2022. The EU's sluggish vaccination drive delayed the start to economic recovery. However, economic momentum has picked up recently.
- We expect the recent spike in inflation will prove largely temporary. The ECB's new monetary policy framework suggest that the ECB will maintain its accommodative monetary policy stance for even longer.
- We do not expect the ECB's Pandemic Emergency Purchase Programme to end before March 2022. We currently do not forecast the ECB will reduce the size of its balance sheet.

China

- We lowered our 2021 GDP growth forecast to 8.4% because of China's latest virus outbreak. But we retain the GDP growth forecast of 5.4% for 2022.
- Foreign demand is expected to diminish gradually. Consumption will recover because of rapid vaccination and successful virus control. However, lingering concerns among consumers and potential intermittent outbreaks will weigh on consumer spending.
- Special bond issuance is expected to increase. But regulatory tightening in local govt finance and the property sector continues.
- We expect the PBoC to cut the RRR by 50bp in Q4 21 following a similar 50bp cut in July. We expect unchanged policy interest rates.
- USD/CNY is f/c to lift to 6.55 by Q4 2021 because of the stronger USD. However, CNY should rise in the medium term because of China-US interest rate differentials, continued economic outperformance and capital inflows.
- Key risks include worsening China-US government relations, rising bond defaults and regulatory uncertainty.

Japan

- We expect the Japanese economy to grow by 3.1% in FY21 and 1.3% in FY22, respectively.
- The fourth State of Emergency in Tokyo and 20 other prefectures will expire on 12 Sep. However, media is reporting that these emergency measures might be extended again. Virus infections continue to rise quickly in Japan, despite encouraging progress in vaccination.
- We expect elevated virus infections and emergency measures to weigh on the domestic economic recovery.
- Japan remains in deflation. The risk is that deflation will persist longer than the BoJ expect. Thus, additional BoJ easing cannot be ruled out.

Data sources: ABS, RBA, national Central Banks, OECD and Bloomberg

Important Disclosures & Disclaimer

Commonwealth Bank