Education sector insights series.

Helping you navigate the new normal.

A fact sheet on post-COVID economic volatility and the prognosis for potential pathways to recovery.

What's the prognosis for liquidity management?

No industry has been immune to the impact of COVID-19, and the education sector has been among the most vulnerable.

Australia's third largest export industry, education has faced significant changes in 2020, including a fraught debate over whether schools should remain open during the early stages of the pandemic outbreak, and the sudden need to switch to full-time online learning across the sector, which required rapid adaptation.

On top of this came extraordinary pressures and ongoing uncertainties over reduced revenues. The economic downturn has put a fresh emphasis on liquidity management at independent schools as fees pre-COVID were typically a reliable revenue stream. CAPEX and OPEX planning has also been impacted with boards and administrators facing tough decisions about when to spend and when to save.

As Australia closed its borders, universities became a major focus of attention with the downturn in international students. However, schools have also been impacted by students' inability to travel. School students represent just over three per cent of international students studying in Australia and approximately 30 per cent of these were enrolled in independent schools in 2019.

School closures to reduce transmission of the virus have also represented a high economic and social cost – and further changes look likely with the pandemic triggering new approaches to health and safety issues. Requirements for social distancing may change plans for the way all schools are designed in the future.

In a recent webinar, Acting Chief Executive of Westpac Institutional Bank, Curt Zuber explored the impact of COVID-19 on the international financial system, the domestic implications for funding markets and the availability of funding for customers, affirming how Westpac is well-positioned to continue its support for the education sector going forward.

1 Short term: Support comes from strong balance sheets.

The Federal Government and the Reserve Bank were swift to respond to the crisis with a number of measures to stimulate the economy.

Along with the Federal Government's stimulus package, the Reserve Bank lowered rates by 25 basis points and implemented quantitative easing – conventional monetary policy never before seen in Australia.

"The central bank has bought about $50 billion in government bonds, which is critical in stabilising the bond market and providing liquidity," Zuber explained. "We've seen a number of corporate issuers and financial institutions being able to issue in the marketplace again.

"If you compare this to the GFC, when the only way the private sector could get back into the market was through a government guarantee, the current provision of liquidity has seen the corporate bond market return much quicker."

As of July 2020, the Reserve Bank of Australia (RBA) has also provided a term-funding facility to the major Authorised Deposit-taking Institutions

Key take-outs:

- **The economic downturn has brought the need for strong liquidity management into sharp relief for independent schools.**
- **The Federal Government and Reserve Bank have both been swift to respond to the crisis with measures to stimulate the economy.**

(ADIs), which reduces the funding costs for banks like Westpac and, in turn, helps to reduce interest rates for borrowers. The scheme also encourages lending, as ADIs can access additional low-cost funding if they expand their lending to businesses.

Banks have also provided support via deferral packages for both mortgage and SME customers. Approximately seven per cent of Westpac's mortgage accounts and 18 per cent of its eligible SME customers have taken up the offer.

"APRA [the Australian Prudential Regulation Authority], the Commonwealth Government and the Reserve Bank have encouraged banks to use a portion of the unquestionably strong capital buffer to provide liquidity and funding to our customers during this unprecedented time," said Zuber. "As the economy slowly recovers the banks will restore that strong buffer.

"During these uncertain times Australia is well-positioned, due to the Commonwealth Government having a strong balance sheet, to provide the fiscal stimulus; and Westpac's balance sheet is very strong from a capital, funding, liquidity and credit perspective, which has allowed us to keep our doors open, supporting customers in many ways."

❷ Longer term: Volatility and zero interest rates are to be expected.

Interest rates are expected to remain at zero for several years and Westpac predicts subdued credit growth over the next 12 months. "Most importantly, when our customers come off deferral payment packages we will need to think through how we support them in the right way," said Zuber.

Funding from global markets, as well as access to the RBA's term-funding facility (TFF), will finance most of Westpac's maturities throughout 2020, Zuber noted. Access to the TFF and improved global credit markets will allow Westpac to support customers as demand for lending increases.

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>
> **Curt Zuber**, Acting Chief Executive of Westpac Institutional Bank

There is speculation about whether Australia will move to negative interest rates in the future. However, Zuber says the decision will be shaped by that of other countries, particularly the US.

"If the US takes its rates negative, it would put pressure on things like the Aussie dollar becoming too high and that would put more headwinds in the Australian economy than the Reserve Bank can necessarily afford," he says

Despite support measures from both Government and the RBA, currency, equity and credit markets remain volatile. Higher levels of unemployment and challenges of bad debts are expected to increase.

That said, Australia is managing the crisis better than expected, according to Zuber. "I think we'll continue to see markets gradually settle down and adjust to the new environment."

❸ The future: Innovation is the way to resilience.

There are inherent risks in delays to the bounce-back for the education sector. High levels of unemployment and reduced incomes across the Australian population combined with uncertainties over the timeframe for the economic bounce-back and the ability to quell further spread of COVID-19 provide ongoing challenges for decision-makers across the board, and it's unclear when international students may return.

However, just as other sectors have transformed their operations during the crisis, the education sector must be innovative in its response.

Key take-outs:

- **The future is uncertain. The possibility of negative interest rates persists. Currency, equity and credit markets remain volatile. High unemployment is a concern.**
- **However, Westpac is optimistic in terms of the Australian market's longer-term ability to adjust and adapt to the 'new normal'.**

This may require diversifying its international student market and rethinking the way education is provided. "We need to take stock of what we know and imagine different ways to service customers," says Zuber. "Online learning could be a way to attract foreign students."

Despite the challenges, Zuber noted that Australia's response to the pandemic may have strengthened its appeal to students across geographies."I think most people are now scared that there could be future pandemics, but don't underestimate the world view of how well Australia has responded. So, when you think about where you want to go to university, or where you might want to live, and you have the financial freedom to do that, I think Australia or New Zealand, ultimately, will do well out of this in the long term.

"There is no doubt that the pandemic is having an impact on education, but it presents opportunities to be innovative."

The three 'C's

Michelle Johnston, National Head of Education reiterated Westpac's support for customers, summarising that throughout the pandemic schools have focused on the three 'C's:

"Westpac is committed to assisting our Education customers throughout business cycles and has provided both liquidity support and covenant relief where needed."

Michelle Johnston, National Head of Education, Westpac

- Cash flow – ensuring that the cash impact of any changes to school fee structures provides cash headroom at acceptable levels;
- Capital expenditure – reviewing capital expenditure programs to determine necessary spend and/or deferment during periods where cash flow is likely to be impacted; and
- Covenants – if covenants apply to a school's borrowing facilities, ensuring that forecasting any material downside as a result of COVID-19 is factored into forecasting covenant compliance.

Johnston concluded: "Westpac is committed to assisting our Education customers throughout business cycles and has provided both liquidity support and covenant relief where needed."

We're here to help.

While uncertainty remains, customers should speak to their Westpac relationship manager to discuss liquidity and funding options. If you need more information or details on how to manage liquidity most effectively, contact your Westpac Relationship Manager today or visit www.westpac.com.au/education