



Economic Response to the Coronavirus

The Australian economy is resilient and we are well placed to navigate the economic implications arising from the Coronavirus.

The Government has moved quickly to put in place health measures to protect the Australian community from this complex and rapidly evolving challenge.

Today we announce an economic response totalling \$17.6 billion across the forward estimates, representing 0.9 per cent of annual GDP. This package will protect the economy by maintaining confidence, supporting investment and keeping people in jobs. Additional household income and business support will flow through to strengthen the wider economy.

The Australian Government is acting decisively in the national interest to address the potentially significant economic consequences of the virus, without a permanent or structural impact on the budget balance.

OUR HEALTH SYSTEM IS WELL PREPARED TO ENSURE THE SAFETY OF THE COMMUNITY

The outbreak of the Coronavirus is a new, complex and rapidly evolving challenge with significant health impacts. While the outbreak originated in China, significant outbreaks are now occurring in Italy, Iran and South Korea with more than 100 countries reporting infections.

To date, cases in Australia have been relatively small in number, but the medical advice is that the Coronavirus will continue to move through the Australian community.

Our health system is well prepared to manage an outbreak of the Coronavirus. We have a world-class health system which has pandemic plans that are currently activated. The Government has put in place strong measures to protect Australians, including activating the National Incident Room, releasing masks from the National Medical Stockpile, enhancing border controls and imposing strict travel restrictions. The Government will continue to respond as the situation develops.

The Government has committed an additional \$2.4 billion to support our health system to manage any further outbreak in Australia. The package provides support across primary care, aged care, hospitals and research. It will ensure the capacity of our health system to effectively assess, diagnose and treat people with the Coronavirus in a way that minimises its spread in the community and protects vulnerable Australians. The Government has also committed to pay for half of all additional costs incurred by states and territories in diagnosing and treating patients with, or suspected of having, the Coronavirus, and efforts to minimise the spread of the virus.

HOW THE CORONAVIRUS WILL AFFECT THE GLOBAL AND AUSTRALIAN ECONOMIES

The Coronavirus outbreak not only affects people's health and the health systems of the countries affected, it is also having significant economic implications.

Going into this outbreak, there were tentative signs that global economic conditions were improving, following a period of weaker growth over much of 2019. World merchandise trade volumes strengthened in late 2019 and survey measures of production in manufacturing and services industries improved in some key economies.

Economic activity in Australia was also strengthening at the end of 2019. The Australian economy grew by 2.2 per cent through the year to the December quarter 2019, a step up from 1.8 per cent through the year to the September quarter. Growth was expected to pick up over the forecast period, supported by the

personal income tax relief announced in the 2018-19 and 2019-20 Budgets and the Government's \$100 billion investment in productivity-enhancing infrastructure. Accommodative monetary policy and a lower Australian dollar were also expected to support a pick-up in growth.

Australia's position heading into this crisis was stronger than many, with both the IMF and the OECD forecasting Australia to grow faster than comparable economies, including the UK, Canada, Japan, Germany and France.

While highly uncertain, it is clear that the spread of the Coronavirus across the world is having a negative economic impact.

The economic implications of the Coronavirus outbreak to date have been most significant for the Chinese economy. This reflects the size of the outbreak in China and the measures taken to contain its spread. A range of economic indicators are showing that the Chinese economy has been severely impacted. A survey measure of activity in the manufacturing sector had its largest fall in its history in February, while activity in China's services sector, particularly transport, real estate and hotel and catering, has weakened substantially.

The negative economic effect in China is having global implications. Relative to SARS in 2003, China's economy is substantially larger and more interconnected with the world, including Australia. Two-thirds of the world's economies now have China as one of their top three trading partners. Economies are experiencing reduced Chinese demand for services overseas such as travel and tourism, and there are increasing reports of reduced access to goods through supply chains.

The global economic implications have broadened as the Coronavirus has spread to other nations.

The global nature of the shock is evident in financial markets. Stock markets have fallen substantially around the world in recent weeks, while corporate bond spreads have widened. The Australian dollar is 6 per cent lower on a trade-weighted basis than it was in early January.

Financial regulators around the world are monitoring conditions closely and there is strong communication amongst our domestic agencies through the Council of Financial Regulators. The Australian financial system is strong and resilient. Financial markets are continuing to function effectively. Since the global financial crisis, reforms have been implemented that collectively contribute to a significant increase in the resilience of our financial system. Specific reforms include: increasing the quantity and quality of banks' capital and liquidity positions; strengthening the RBA's ability to provide financial institutions with emergency funding during periods of liquidity stress; and strengthening APRA's crisis management powers.

Oil prices have fallen, to be around 50 per cent lower than prices in early January, reflecting falling global demand and the collapse of an agreement between major producers to reduce output. While oil-linked LNG export prices will be negatively affected by these falls, consumers will benefit from lower petrol prices.

In contrast, prices of key bulk commodities have remained resilient to date. This is likely due to an expectation that the Chinese authorities will move to boost domestic demand through ongoing stimulus measures, including increased investment in infrastructure.

In response to the Coronavirus outbreak, fiscal authorities in a number of countries have enacted measures to support both their health systems and their economy more broadly. Governments are providing support, particularly to sectors and workers most affected by the outbreak, and more announcements are expected. Monetary policy is responding with more than 35 central banks across the world easing policy in 2020 so far. This includes the RBA, which reduced the cash rate by 25 basis points in March to a record low of 0.5 per cent.

The fiscal response in a number of key economies, including China, South Korea, Italy and Singapore, has so far focussed on supporting businesses through this period of uncertainty, for example through restructuring of loans, tax cuts or retraining. Fiscal responses have also supported households, for example through cash payments, income support or tax credits.

Like other economies around the world, the Australian economy is already feeling the effects of the global Coronavirus outbreak. Tourist and student arrivals have been significantly lower than they were in late 2019, and demand for some premium agricultural products has fallen. The reduction in tourism demand

comes on top of the effects on tourism from the summer's bushfires, which caused some travellers to cancel or delay their trips to Australia. The effect on the education sector is significant, with over 100,000 Chinese international students not in Australia when the travel ban was actioned.

Based largely on the direct effect of lower international students and tourism expenditure, the Coronavirus outbreak is expected to detract at least ½ of a percentage point from economic growth in Australia in the March quarter 2020. This is on top of the estimated detraction from growth from the bushfires of 0.2 percentage points across the December and March quarters.

There remains considerable uncertainty around the potential economic implications of the Coronavirus for the June quarter and beyond. The economic shock is likely to be significant. There are a wide range of potential paths for the spread and containment of the virus globally and in Australia. In addition, there is uncertainty around the impact on confidence, people's ability to work and business cash flow. The global spread of the virus and its global economic impact will also flow through to demand for Australia's exports and the availability of inputs into domestic production and imported consumption goods.

There are automatic mechanisms that will help to support activity. The flexible exchange rate helps to mitigate the effect of shocks to global demand, we have a sound and well-capitalised banking sector and our labour market has shown that it can flexibly respond as firms adjust more through hours than the number of employees. Automatic fiscal responses, such as reductions in tax revenue and higher payments to households, will also support activity by households and businesses. With accommodative monetary policy and this package of support, we are confident that the Australian economy is well placed to get through this shock.

HOW THE GOVERNMENT IS RESPONDING

This \$17.6 billion package represents fiscal support across the forward estimates of 0.9 per cent of annual GDP. This significant action has been taken in the national interest to guard against more severe economic impacts of the Coronavirus outbreak. The package is front-loaded in order to instil confidence in businesses and households and help firms keep people employed. This will ensure that the economy is in the best possible position to recover as the shock subsides.

The 2020-21 Budget, to be delivered in May, will present the latest official forecasts for the economy and fiscal position. It will reflect the various developments which have taken place since the 2019-20 Mid-Year Economic and Fiscal Outlook, including the economic and fiscal impacts of the response package.

The IMF and OECD have indicated that Australia is in one of the best positions within advanced economies to provide fiscal support without endangering debt sustainability. This package has been designed to be fiscally responsible. The measures will not have a permanent or structural impact on the budget balance. The Government is protecting the structural integrity of the Budget to keep debt low for future generations.

The international credit rating agency Standard and Poor's has indicated that temporary stimulus would be 'unlikely to strain Australia's creditworthiness' given the Government's commitment to maintain medium-term fiscal discipline.

The measures included in this package complement existing programs that are supporting the economy. These include the already announced packages to support the recovery from the bushfires and drought.

The Government's response is tailored to the nature of the shock and has been designed around seven key principles. These are that:

- measures must be proportionate to the degree of the economic shock and the impact on the economy;
- measures need to be timely and scalable, so they can be adjusted appropriately as the health and economic effects unfold;
- the response needs to be targeted to address the specific issues we are confronting, supporting those most affected, and delivered where it will be most effective;

- the response needs to be aligned with the many other arms of policy and activity, in particular monetary policy, and with the responses of other governments, particularly at a state and territory level;
- existing delivery mechanisms should be used, wherever possible;
- the measures must be temporary and accompanied by a fiscal exit strategy; and
- measures should favour those that will lift productivity to enable the Australian economy to sustain an even stronger growth trajectory than we were on prior to the crisis.

SUMMARY OF THE ECONOMIC RESPONSE

The Government's economic response addresses the economic impacts of the Coronavirus outbreak. It is intended to support confidence, employment and business continuity. It is designed to support business investment, help small businesses manage short-term cash flow challenges, provide targeted support to individuals and assistance to the most severely affected communities and regions.

1. Delivering support for business investment

The Government is backing businesses to invest to help the economy withstand and recover from the economic impact of the Coronavirus. The two business investment measures in this package are designed to assist Australian businesses and economic growth in the short term, and encourage a stronger economic recovery following the Coronavirus outbreak.

Increasing the instant asset write-off

From today, the Government is increasing the instant asset write-off threshold from \$30,000 to \$150,000 and expanding access to include businesses with aggregated annual turnover of less than \$500 million (up from \$50 million) until 30 June 2020. In 2017-18 there were more than 360,000 businesses that benefited from the current instant asset write-off, claiming deductions to the value of over \$4 billion.

Backing business investment

The Government is introducing a time limited 15 month investment incentive (through to 30 June 2021) to support business investment and economic growth over the short term, by accelerating depreciation deductions. Businesses with a turnover of less than \$500 million will be able to deduct 50 per cent of the cost of an eligible asset on installation, with existing depreciation rules applying to the balance of the asset's cost.

These two measures will support over 3.5 million businesses (over 99 per cent of businesses) employing more than 9.7 million employees.

2. Cash flow assistance for businesses

This assistance will support businesses to manage cash flow challenges resulting from the economic impacts of the Coronavirus and help businesses retain their employees. These two measures are designed to support employing small and medium enterprises and to improve business confidence.

Boosting cash flow for employers

The Boosting Cash Flow for Employers measure will provide up to \$25,000 back to small and medium-sized businesses, with a minimum payment of \$2,000 for eligible businesses. The payment will provide cash flow support to businesses with a turnover of less than \$50 million that employ staff. The payment will be tax free.

This measure will benefit around 690,000 businesses employing around 7.8 million people.

Supporting apprentices and trainees

The Government is supporting small business to retain their apprentices and trainees. Eligible employers can apply for a wage subsidy of 50 per cent of the apprentice's or trainee's wage for up to 9 months from 1 January 2020 to 30 September 2020. Where a small business is not able to retain an apprentice, the subsidy will be available to a new employer that employs that apprentice.

This measure will support up to 70,000 small businesses, employing around 117,000 apprentices.

3. Stimulus payments to households to support growth

This measure will assist around 6.5 million lower income Australians, which will support confidence and domestic demand in the economy.

Stimulus payments

The Government will provide a one-off \$750 payment to social security, veteran and other income support recipients and eligible concession card holders. Around half of those that will benefit are pensioners.

There will be one payment per eligible recipient. For example, if a person qualifies for the one-off payment in multiple ways, they will only receive one payment.

The payment will be tax free and will not count as income for Social Security, Farm Household Allowance and Veteran payments.

4. Assistance for severely affected regions

This measure provides \$1 billion to support regions most significantly affected by the Coronavirus outbreak.

Support for Coronavirus-affected regions and communities

The Government has set aside \$1 billion to support those regions and communities that have been disproportionately affected by the economic impacts of the Coronavirus, including those heavily reliant on industries such as tourism, agriculture and education.

This will include the waiver of fees and charges for tourism businesses that operate in the Great Barrier Reef Marine Park and the waiver of entry fees for Commonwealth National Parks. It will also include additional assistance to help businesses identify alternative export markets or supply chains. Targeted measures will also be developed to further promote domestic tourism.

The Australian Tax Office (ATO) is also providing administrative relief for some tax obligations for people affected by the Coronavirus outbreak, on a case-by-case basis. The ATO will set up a temporary shop front in Cairns within the next few weeks with dedicated staff specialising in assisting small business. In addition, it will consider ways to enhance its presence in other significantly affected regions, making it easier for people to apply for relief. The ATO is considering further temporary shop fronts and face-to-face options.

PACKAGE IMPLEMENTATION

The Government will move quickly to implement this package. To that end, a package of Bills will be introduced into Parliament in the final Autumn sitting week in March 2020 for Parliament's urgent consideration and passage.

Following passage of the Bills through Parliament, the Government will then move to immediately make, and register, any supporting instruments.

FOR MORE INFORMATION

For more information on the Australian Government's Economic Response to Coronavirus visit treasury.gov.au/coronavirus.

Summary: Economic response to the Coronavirus

| AIM | WHAT | WHEN | 19-20 \$M | 20-21 \$M | 21-22 \$M | 22-23 \$M | 23-24 \$M | TOTAL \$M |
|---|---|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Delivering support for business investment | Increasing the instant asset write-off Lifting the threshold to \$150,000 (from \$30,000) — and making more businesses eligible to use it. | Immediately, until 30 June 2020 | 0 | -2,300 | -200 | 1,400 | 400 | -700 |
| | Backing business investment Offering businesses a time-limited incentive to invest, by accelerating depreciation deductions. | Immediately, until 30 June 2021 | 0 | -1,500 | -5,200 | 200 | 3,300 | -3,200 |
| Cash flow assistance for businesses | Boosting cash flow for employers Helping small and medium-sized businesses cover the costs of employee wages and salaries (50 per cent of PAYG withheld, with a minimum \$2,000 payment and up to a cap of \$25,000 over 6 months). | Covers amounts withheld between 1 January — 30 June 2020 | -5,900 | -800 | 0 | 0 | 0 | -6,700 |
| | Supporting apprentices and trainees Wage assistance to help small businesses to keep their apprentices and trainees. | 1 January 2020 to 30 September 2020 | -192 | -1,072 | 0 | 0 | 0 | -1,265 |
| Stimulus payments to households to support growth | Stimulus payments One-off payment of \$750 to social security, veteran and other income support recipients and eligible concession card holders to support confidence and domestic demand in the economy. | From 31 March 2020 | -4,757 | -7 | -0 | 0 | 0 | -4,764 |
| Assistance for severely affected regions | Support for Coronavirus-affected regions and communities Financial support to help regions and communities most affected by the Coronavirus to recover. | As soon as practicable | -100 | -900 | 0 | 0 | 0 | -1,000 |
| TOTAL | | | -10,950 | -6,579 | -5,400 | 1,600 | 3,700 | -17,629 |