



# Economic Response to the Coronavirus

The Government is acting decisively in the national interest to support households and businesses and address the significant economic consequences of the Coronavirus.

While the full economic effects from the virus remain uncertain, the global and domestic outlook has deteriorated since the Government's initial Economic Response announced on 12 March 2020.

The spread of the virus worldwide has broadened and is expected to be more prolonged. Governments, both international and domestic, have announced stricter mitigation measures to slow the spread of the virus, which are having significant economic impacts.

Today we announce the introduction of a *JobKeeper Payment* which, combined with our previous actions, total \$320 billion across the forward estimates, representing 16.4 per cent of annual GDP.

These actions provide timely support to affected workers, businesses and the broader community.

## HOW THE CORONAVIRUS WILL AFFECT THE GLOBAL AND AUSTRALIAN ECONOMIES

The outbreak of the virus has expanded and is a rapidly evolving challenge with significant health impacts. While the outbreak originated in China, significant outbreaks have occurred in Italy, Spain and Iran, as well as elsewhere in Europe and the United States. There are more than 190 countries reporting infections.

Our health system is well prepared to manage this outbreak. 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 and other Personal Protective Equipment from the National Medical Stockpile, enhancing border controls and imposing strict travel restrictions, and promoting social distancing to limit the spread. The Government will continue to respond as the situation develops.

The Government's commitment of \$3.6 billion to manage the outbreak in Australia will strengthen our health system to manage the Coronavirus in the community and protect vulnerable Australians. In addition, the Australian Government has agreed with the States and the Territories to share the public health costs incurred by the States in treating the Coronavirus.

In relation to aged care, temporary measures will be introduced to support the aged care sector with an additional \$444.6 million. This includes funding for a retention bonus to ensure the continuity of the workforce in both residential and home care as well as funding to support the viability of residential aged care facilities. This is in addition to more than \$100 million that the Government previously announced to support the aged care workforce.

The Coronavirus outbreak not only affects people's health. The virus, along with the increasing health measures to slow its spread, will have significant economic implications.

The international economic outlook has worsened as the Coronavirus has spread.

While the initial economic impact of the outbreak was most significantly felt in the Chinese economy, this has quickly evolved to other countries and regions. Major economies including the UK, Italy and Spain have

announced they are in “lockdown” to contain the Coronavirus, which is expected to hinder economic activity over coming months.

In China, 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. China also had record falls for industrial production, retail sales and fixed asset investment over January and February. Trade for this period was also significantly affected.

Given China’s interconnectedness with the world, and its key role in supply chains, this decline will have flow-on economic impacts for the world. But concerns about flow-on effects have been magnified as more countries take direct action to slow the Coronavirus spread. In particular, across the world we have seen a substantial increase in the breadth and severity of restrictions on the movement of people. And this is showing up in confidence indicators in Europe, the United States and Asia.

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 11 per cent lower on a trade-weighted basis than it was in early January.

While markets initially incorporated sharp downward revisions to the economic outlook in an orderly way with few signs of dislocation, more recently we have seen significant financial market strains. Financial authorities around the world have responded with a range of measures to support market functioning and economic activity.

Oil prices have continued to fall, and are now around 65 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 and gas 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 measures, including increased investment in infrastructure.

In response to the Coronavirus outbreak, fiscal authorities in numerous countries have announced measures to support their health systems and their economies. Governments are supporting the sectors and workers most affected by the outbreak, and we are continuing to see the announcement of policies to help households and businesses cope as unprecedented shut-downs occur. Such policies have included loan arrangements, tax deferrals and relief, cash payments and income support. Monetary policy is also responding with around 70 central banks across the world easing policy in 2020 so far.

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

Australian governments continue to act quickly and decisively to adjust our health measures to the scale of the threat. This scaling up of measures to protect the health of our community will have negative effects on the economy. Demand for goods and services will be lowered, and this will be concentrated in some industries such as tourism, hospitality and retail trade. Some businesses will be unable to operate in the usual way owing to restrictions on large gatherings, or may face labour or supply chain challenges.

There remains considerable uncertainty around the economic implications of the Coronavirus for the June quarter and beyond, but the economic shock will 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 Coronavirus 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 — with firms adjusting more through hours, than the number of employees.

## HOW THE GOVERNMENT IS RESPONDING

The Government's consolidated package of \$320 billion represents fiscal and balance sheet support across the forward estimates of 16.4 per cent of annual GDP. The support is designed to help businesses and households through the period ahead. This significant action has been taken in the national interest and has been updated in the light of the broader and more prolonged impact of the Coronavirus outbreak.

The package provides timely support to workers, households and businesses through a difficult time. Building on the previous measures, this package will support those most severely affected. It is also designed to position the Australian economy to recover strongly once the health challenge has been overcome.

The IMF and OECD have indicated that Australia is one of the advanced economies in the best positions to provide fiscal support without endangering debt sustainability.

## SUMMARY OF THE ECONOMIC RESPONSE

The Government's economic response will support households and business through the period ahead. It is designed to support businesses in managing short-term cash flow challenges, provide support to individuals, severely affected communities and regions, to ensure the continued flow of credit in the Australian economy and to ensure that employers can maintain connections with employees during this difficult period.

### 1. Support for individuals and households

The Government is providing financial assistance to Australians to support them through the economic impact of the Coronavirus. This assistance includes the *JobKeeper Payment* income support payments, payments to support households and temporary early releases of superannuation.

#### *JobKeeper Payment*

The *JobKeeper Payment* helps businesses significantly impacted by the Coronavirus cover the costs of their employees' wages, so more Australians can retain their jobs and continue to earn an income. Employers will notify employees if they are claiming the fortnightly payment of \$1,500. Please see the *Supporting businesses to retain jobs* fact sheet for more information on this measure.

#### *Income support for individuals*

Over the next six months, the Government is temporarily expanding eligibility to income support payments and establishing a new, time-limited Coronavirus supplement to be paid at a rate of \$550 per fortnight on top of their existing income support payment. This will be paid to both existing and new recipients of Jobseeker Payment, Youth Allowance, Parenting Payment, Austudy, ABSTUDY Living Allowance, Farm Household Allowance and Special Benefit. The Government is also temporarily expanding access for the *JobSeeker Payment* by relaxing the partner income test.

#### *Payments to support households*

The Government is providing two separate \$750 payments to social security, veteran and other income support recipients and eligible concession card holders. The first payment will be made from 31 March 2020 and the second payment will be made from 13 July 2020. Around half of those that benefit are pensioners. These payments will help to support confidence and domestic demand in the economy. The second payment will not be made to those eligible for the Coronavirus supplement.

Recognising that many Australians have saved over their lives to support themselves in retirement, the Government is implementing two measures to support retirees in managing the impact of recent volatility in financial markets and the impact of low interest rates on their retirement savings.

#### *Temporary early release of superannuation*

The Government is allowing individuals affected by the Coronavirus to access up to \$10,000 of their superannuation in 2019-20 and a further \$10,000 in 2020-21. Individuals will not need to pay tax on amounts released and the money they withdraw will not affect Centrelink or Veterans' Affairs payments.

#### *Temporarily reducing superannuation minimum drawdown rates*

The Government is temporarily reducing superannuation minimum drawdown requirements for account-based pensions and similar products by 50 per cent for 2019-20 and 2020-21. This measure will benefit retirees with account-based pensions and similar products by reducing the need to sell investment assets to fund minimum drawdown requirements.

#### *Reducing social security deeming rates*

On 12 March, the Government announced a 0.5 percentage point reduction in both the upper and lower social security deeming rates. The Government will now reduce these rates by another 0.25 percentage points.

As of 1 May 2020, the upper deeming rate will be 2.25 per cent and the lower deeming rate will be 0.25 per cent. The reductions reflect the low interest rate environment and its impact on the income from savings. The change will benefit around 900,000 income support recipients, including around 565,000 Age Pensioners who will, on average receive around \$105 more of the Age Pension in the first full year the reduced rates apply.

## 2. Support for businesses

#### *JobKeeper Payment*

On 30 March 2020, the Government announced the *JobKeeper Payment* for eligible businesses, which may include sole traders, whose turnover had reduced by more than 30 per cent if they have a turnover of less than \$1 billion or by more than 50 per cent if they have a turnover of more than \$1 billion. Businesses subject to the Major Bank Levy will not be eligible. Following registration by the eligible business, the Government will provide \$1,500 per fortnight per eligible employee for a maximum of 6 months. This will support employers to maintain their connection with employees. Please see the *Supporting businesses to retain jobs* fact sheet for more information on this measure.

#### *Boosting Cash Flow for Employers*

The Government is providing temporary cash flow support to small and medium businesses and not for profit (NFP) organisations that employ staff during the economic downturn associated with COVID-19 (novel coronavirus). This will be done through two sets of cash flow boosts delivered from 28 April 2020 to support employers to retain employees.

The Government will provide tax-free cash flow boosts of between \$20,000 and \$100,000 to eligible businesses, delivered through credits in the activity statement system, when eligible businesses lodge their activity statements.

Small and medium-sized business entities with aggregated annual turnover under \$50 million and that employ workers are eligible. NFPs, including charities, with aggregated annual turnover under \$50 million and that employ workers are also eligible. This will support employment at a time where NFPs are facing increasing demand for services.

Eligible businesses will receive initial payments in the March to July 2020 period. These payments will be equal to 100 per cent of their employees' salary and wages withheld. The minimum initial payment is \$10,000 and the maximum initial payment is \$50,000.

Businesses who received initial cash flow boosts will receive additional cash flow boosts for the periods June to September 2020, equal to the total amount of initial cash flow boosts received. This means that eligible businesses that employ people will receive at least \$20,000 up to a total of \$100,000 under both payments. This additional payment continues cash flow support over a longer period, increasing confidence, helping employers to retain staff and helping businesses to keep operating.

Please see the *Cash flow assistance for businesses* fact sheet for more information on this measure.

#### *Temporary relief for financially distressed businesses*

The economic impacts of the Coronavirus and health measures to prevent its spread will see many otherwise profitable and viable businesses temporarily face financial distress. It is important that these businesses have a safety net to make sure that when the crisis has passed they can resume normal business operations. One element of that safety net is to lessen the threat of actions that could unnecessarily push them into insolvency and force the winding up of the business.

The Government is temporarily increasing the threshold at which creditors can issue a statutory demand on a company and to initiate bankrupt proceedings against an individual as well as temporarily increasing the time companies and individuals have to respond to statutory demands they receive. The package also includes temporary relief for directors from any personal liability for trading while insolvent, and providing temporary flexibility in the *Corporations Act 2001* to provide targeted relief from provisions of the Act to deal with unforeseen events that arise as a result of the Coronavirus health crisis.

The ATO will tailor solutions for owners or directors of business that are currently struggling due to the Coronavirus, including temporary reduction of payments or deferrals, or withholding enforcement actions including Director Penalty Notices and wind-ups.

#### *Increasing the instant asset write-off*

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. This measure will support over 3.5 million businesses (over 99 per cent of businesses) employing more than 9.7 million employees.

#### *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. This measure will support business investment and is estimated to lower taxes paid by Australian businesses by \$6.7 billion over the next two years. This measure will support over 3.5 million businesses (over 99 per cent of businesses) employing more than 9.7 million employees.

#### *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 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. Employers will be reimbursed up to a maximum of \$21,000 per eligible apprentice or trainee (\$7,000 per quarter).

Support will also be provided to the National Apprentice Employment Network, the peak national body representing Group Training Organisations, to co-ordinate the re-employment of displaced apprentices and trainees throughout their network of host employers across Australia.

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

#### *Support for Coronavirus-affected regions and communities*

The Government will set aside \$1 billion to support regions most significantly affected by the Coronavirus outbreak. These funds will be available to assist during the outbreak and the recovery. In addition, the Government is assisting our airline industry by providing relief from a number of taxes and Government charges estimated to total up to \$715 million.

### 3. Supporting the flow of credit

The Government, the Reserve Bank of Australia and the Australian Prudential Regulatory Authority have taken coordinated action to ensure the flow of credit in the Australian economy. Timely access to credit is vital for businesses to manage the impacts of the Coronavirus.

#### *Support for immediate cash flow needs for SMEs*

Under the Coronavirus SME Guarantee Scheme, the Government will provide a guarantee of 50 per cent to SME lenders to support new short-term unsecured loans to SMEs. The Scheme will guarantee up to \$40 billion of new lending. This will provide businesses with funding to meet cash flow needs, by further enhancing lenders' willingness and ability to provide credit. This will assist otherwise viable businesses across the economy who are facing significant challenges due to disrupted cash flow to meet existing obligations.

#### *Quick and efficient access to credit for small business*

The Government is cutting red tape by providing a temporary exemption from responsible lending obligations for lenders providing credit to existing small business customers. This reform will help small businesses get access to credit quickly and efficiently.

#### *Reserve Bank of Australia — Supporting the flow and reducing the cost of credit*

The Reserve Bank of Australia (RBA) announced a package on 19 March 2020 that will put downward pressure on borrowing costs for households and businesses. This will help mitigate the adverse consequences of the Coronavirus on businesses and support their day-to-day trading operations. The RBA is supporting small businesses as a particular priority.

The RBA announced a term funding facility for the banking system. Banks will have access to at least \$90 billion in funding at a fixed interest rate of 0.25 per cent. This will reinforce the benefits of a lower cash rate by reducing funding costs for banks, which in turn will help reduce interest rates for borrowers. To encourage lending to businesses, the facility offers additional low-cost funding to banks if they expand their business lending, with particular incentives applying to new loans to SMEs.

In addition, the RBA announced a further easing in monetary policy by reducing the cash rate to 0.25 per cent. It is also extending and complementing the interest rate cut by taking active steps to target a 0.25 per cent yield on 3-year Australian Government Securities.

#### *Support for Non-ADI and smaller ADI lenders in the securitisation market*

The Government is providing the Australian Office of Financial Management (AOFM) with \$15 billion to invest in structured finance markets used by smaller lenders, including non-Authorised Deposit-Taking Institutions (non-ADI) and smaller Authorised Deposit-Taking Institutions (ADI). This support will be provided by making direct investments in primary market securitisations by these lenders and in warehouse facilities.

*Australian Prudential Regulatory Authority — Ensuring banks are well placed to lend*

The Australian Prudential Regulatory Authority has announced temporary changes to its expectations regarding bank capital ratios. The changes will support banks' lending to customers, particularly if they wish to take advantage of the new facility being offered by the RBA.

For more information on the Australian Government's Economic Response to Coronavirus visit [treasury.gov.au/coronavirus](https://treasury.gov.au/coronavirus).

# Timing of Assistance

| DATE  | SUPPORT   |
|---|---|
| <b>Immediately, with deductions to be included in 2019-20 tax returns</b> | Increased instant asset write off                             |
| <b>Immediately</b>  | Temporarily reduced minimum drawdown rates for superannuation |
| <b>Immediately, with deductions to be included in 2019-20 tax returns</b> | Backing business investment — accelerated depreciation        |
| <b>As soon as practicable</b>   | Support for Coronavirus-affected regions and communities      |
| <b>From 30 March 2020</b>   | Register interest for <i>JobKeeper Payment</i>                |
| <b>From 31 March 2020</b>   | First round of \$750 payments to support households           |
| <b>Applications from early-April</b>                                      | Assistance for existing apprentices and trainees              |
| <b>Applications from mid-April 2020</b>                                   | Temporary early release of superannuation                     |
| <b>From 27 April 2020</b>   | Income support and a Coronavirus supplement                   |
| <b>From 28 April 2020</b>   | First phase of <i>Boosting Cash Flow for Employers</i>        |
| <b>From 1 May 2020</b>  | Increased transfer payments from reduced deeming rates        |
| <b>First week of May</b>  | Initial <i>JobKeeper Payments</i> received by employers       |
| <b>From 13 July 2020</b>  | Second round of \$750 payments to support households          |
| <b>From 21 July 2020</b>  | Second phase of <i>Boosting Cash Flow for Employers</i>       |



## Summary: Economic response to the Coronavirus

| AIM   | WHAT   | WHEN   | 19-20<br>\$M | 20-21<br>\$M | 21-22<br>\$M | 22-23<br>\$M | 23-24<br>\$M | TOTAL<br>\$M |
|---|--|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Support for<br>Individuals<br>and<br>Households | <b>Income support for individuals</b><br>The Government is temporarily expanding eligibility to income support payments and establishing a new, time-limited Coronavirus supplement to be paid at a rate of \$550 per fortnight. This would be paid to both existing and new recipients of the eligible payment categories. <sup>1</sup> | From 27 April 2020   | -5,216       | -8,841       | -39          | -22          | -15          | -14,133      |
|   | <b>Payments to support households</b><br>Provide two rounds of \$750 payments to those eligible.   | First round from 31 March 2020, second round from 13 July 2020 | -4,877       | -3,917       | -34          | -2           | 0            | -8,830       |
|   | <b>Temporary early release of superannuation</b><br>Enable individuals and sole traders directly impacted by the economic consequences of the Coronavirus to access up to \$10,000 of their superannuation, tax-free, in 2019-20, and up to a further \$10,000 in 2020-21. No tax will be imposed on withdrawals.                        | Applications from April 2020                                   | -20          | -250         | -280         | -290         | -310         | -1,150       |
|   | <b>Temporarily reduce superannuation minimum drawdown rates</b><br>Reduce the superannuation minimum drawdown rates by 50 per cent for the 2019-20 and 2020-21 income year.  | Immediately  | 0            | *            | *            | *            | 0            | *            |
|   | <b>Lower the social security deeming rates</b><br>Lower the social security deeming rates in response to the low interest rate environment.  | From 1 May 2020  | -35          | -203         | -208         | -212         | -218         | -876         |

<sup>1</sup> Note: does not include changes to the partner income test.

| AIM                       | WHAT   | WHEN   | 19-20<br>\$M | 20-21<br>\$M | 21-22<br>\$M | 22-23<br>\$M | 23-24<br>\$M | TOTAL<br>\$M |
|---------------------------|--|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Support for<br>Businesses | <b>JobKeeper Payment</b><br>A significant wage subsidy program to support employees and businesses through the Coronavirus outbreak. Eligible businesses will receive \$1,500 per fortnight per eligible employee for a maximum of 26 weeks.   | Register interest from 30 March, initial payments received first week of May | -40,000      | -90,000      | 0            | 0            | 0            | -130,000     |
|                           | <b>Boosting Cash Flow for Employers</b><br>Enhance the previously announced Boosting Cash Flow for Employers by extending access to not-for-profits, including charities; increasing the maximum total payments to \$100,000; increasing the rate of the payment, increasing minimum total payments to \$20,000. | Payments from 28 April 2020, additional payments from 21 July 2020           | -14,900      | -17,000      | 0            | 0            | 0            | -31,900      |
|                           | <b>Temporary relief for financially distressed businesses</b><br>Help businesses get through a temporary period of insolvency, by temporarily providing higher thresholds and more time to respond to demands from creditors and providing temporary relief from directors' personal insolvent trading liability |  | 0            | 0            | 0            | 0            | 0            | Nil          |
|                           | <b>Increasing the instant asset write-off</b><br>Lifting the threshold to \$150,000 (from \$30,000) — and making more businesses eligible to use it up to a turnover of \$500 million.   | Immediately, with deductions to be included in 2019-20 tax returns           | 0            | -2,300       | -200         | 1,400        | 400          | -700         |
|                           | <b>Backing business investment</b><br>Offering businesses a time-limited incentive to invest, by accelerating depreciation deductions.   | Immediately, with deductions to be included in 2019-20 tax returns           | 0            | -1,500       | -5,200       | 200          | 3,300        | -3,200       |
|                           | <b>Supporting apprentices and trainees</b><br>Wage assistance to help small businesses to keep their apprentices and trainees.   | Applications open from early April   | -192         | -1,072       | 0            | 0            | 0            | -1,265       |
|                           | <b>Support for Coronavirus affected regions and communities</b><br>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       |

| AIM   | WHAT   | WHEN  | 19-20<br>\$M | 20-21<br>\$M | 21-22<br>\$M | 22-23<br>\$M | 23-24<br>\$M | TOTAL<br>\$M    |
|---|--|---|--------------|--------------|--------------|--------------|--------------|-----------------|
|   | <b>Support for Australian airlines and airports</b><br>Provide initial support to our airline industry through up to \$715 million of relief from a range of taxes and Government charges.                                     | 1 February 2020 to 30 September 2020  | -437         | -278         | 0            | 0            | 0            | -715            |
| <b>TOTAL COMMONWEALTH SUPPORT</b>             |  |   | -60,777      | -126,262     | -5,961       | 1,075        | 3,157        | <b>-193,769</b> |
| Supporting the Flow of Credit                 | <b>Government support for immediate cash flow needs of SMEs</b><br>Establish a loan guarantee arrangement between the Government and participating banks to cover the immediate cash flow needs of SMEs.                       | Commence by early April 2020 and be available for new loans until 30 September 2020 |              |              |              |              |              | Up to 20,000    |
|   | <b>Australian Office of Financial Management Support</b><br>Provided the Australian Office of Financial Management with an investment capacity of \$15 billion to invest in structured finance markets used by smaller lenders |   |              |              |              |              |              | Up to 15,000    |
|   | <b>Reserve Bank of Australia Support</b><br>A package of RBA measures to support the Australian economy.   |   |              |              |              |              |              | Up to 90,000    |
| <b>TOTAL FISCAL AND BALANCE SHEET SUPPORT</b> |  |   |              |              |              |              |              | 318,769         |