



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 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 a second set of economic responses which, combined with our previous actions, total \$189 billion across the forward estimates, representing 9.7 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 and Iran, as well as elsewhere in Europe and the United States. There are more than 170 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 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 on 12 March of an additional \$2.4 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 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 13 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 60 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 more than 54 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 \$189 billion represents fiscal and balance sheet support across the forward estimates of 9.7 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, and to ensure the continued flow of credit in the Australian economy.

1. Support for individuals and households

The Government will provide significant payments to assist lower-income Australians, including pensioners, other social security and veteran income support recipients and eligible concession card holders.

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. This will be paid to both existing and new recipients of Jobseeker Payment, Youth Allowance Jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit.

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

Boosting Cash Flow for Employers

The Government is enhancing the *Boosting Cash Flow for Employers* measure it announced on 12 March 2020. The Government is providing up to \$100,000 to eligible small and medium-sized businesses, and not-for-profits (NFPs) that employ people, with a minimum payment of \$20,000. These payments will help businesses and NFPs with their cash flow so they can keep operating, pay their rent, electricity and other bills and retain staff.

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 will now also be eligible. This will support employment at a time where NFPs are facing increasing demand for services.

Under the enhanced scheme, employers will receive a payment equal to 100 per cent of their salary and wages withheld (up from 50 per cent), with the maximum payment being increased from \$25,000 to \$50,000. In addition, the minimum payment is being increased from \$2,000 to \$10,000.

An additional payment is also being introduced in the July — October 2020 period. Eligible entities will receive an additional payment equal to the total of all of the *Boosting Cash Flow for Employers* payments they have received. This means that eligible entities will receive at least \$20,000 up to a total of \$100,000 under both payments.

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.

PACKAGE IMPLEMENTATION

The Government is moving quickly to implement this package. To that end, a package of Bills is being introduced into Parliament on 23 March 2020 for urgent consideration.

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

FOR MORE INFORMATION

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

Timing of Assistance

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

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
Support for Individuals and Households	Income support for individuals 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.	From 27 April 2020	-5,216	-8,841	-39	-22	-15	-14,133
	Payments to support households 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
	Temporary early release of superannuation 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
	Temporarily reduce superannuation minimum drawdown rates Reduce the superannuation minimum drawdown rates by 50 per cent for the 2019-20 and 2020-21 income year.	Immediately	0	*	*	*	0	*
	Lower the social security deeming rates Lower the social security deeming rates in response to the low interest rate environment.	From 1 May 2020	-35	-203	-208	-212	-218	-876

AIM	WHAT	WHEN	19-20 \$M	20-21 \$M	21-22 \$M	22-23 \$M	23-24 \$M	TOTAL \$M
Support for Businesses	Boosting Cash Flow for Employers 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
	Temporary relief for financially distressed businesses 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
	Increasing the instant asset write-off 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
	Backing business investment 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
	Supporting apprentices and trainees 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
	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
	Support for Australian airlines and airports 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
TOTAL COMMONWEALTH SUPPORT			-25,777	-36,262	-5,961	1,075	3,157	-63,769

AIM	WHAT	WHEN	19-20 \$M	20-21 \$M	21-22 \$M	22-23 \$M	23-24 \$M	TOTAL \$M
Supporting the Flow of Credit	Government support for immediate cash flow needs of SMEs 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
	Australian Office of Financial Management Support 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
	Reserve Bank of Australia Support A package of RBA measures to support the Australian economy.							Up to 90,000
TOTAL FISCAL AND BALANCE SHEET SUPPORT								188,769