



Economic and Fiscal Update

Overview

The COVID-19 pandemic is a once-in-a-century shock. It is placing immense pressure on health systems and economies all around the world. The Government has acted swiftly and decisively to address the significant impacts of COVID-19 on Australia's health system, the economy and jobs by providing an unprecedented level of support to assist households, keep businesses in business and Australians in jobs.

Australia has outperformed most other countries in both health and economic outcomes through this crisis. However, the outbreak of COVID-19 globally and the resulting containment measures are having profound impacts on Australia's economy.

The Government's responsible fiscal management over the past six and a half years has provided the capacity to respond to the unprecedented economic and fiscal challenges posed by the COVID-19 pandemic. Australia has low levels of debt as a share of GDP compared with many other countries and in 2018-19 the Government returned the budget to balance for the first time in 11 years.

The Government is providing timely economic support with \$289 billion in fiscal and balance sheet measures, equivalent to around 14.6 per cent of GDP. This action, together with large declines in taxation receipts and increases in payments, has seen a major deterioration in the budget position, with estimated deficits of \$85.8 billion in 2019-20 and \$184.5 billion in 2020-21.

To support the economic recovery, the Government is extending and further targeting temporary economic measures to support sectors, regions and communities that continue to face challenges.

The economic and fiscal outlook remains highly uncertain. The Government will provide forecasts and projections over the forward estimates period and medium term in the 2020-21 Budget, to be delivered on 6 October 2020.

Economic Outlook

The COVID-19 pandemic has caused severe contractions in economic activity. As a result, the world is experiencing its most severe economic crisis since the Great Depression.

Australia has outperformed most advanced economies in terms of both health and economic outcomes to date through this crisis. The Government's response to contain the spread of the virus has so far prevented the more severe health crises that have devastated many other countries and provided the foundation to begin easing restrictions in most parts of the country.

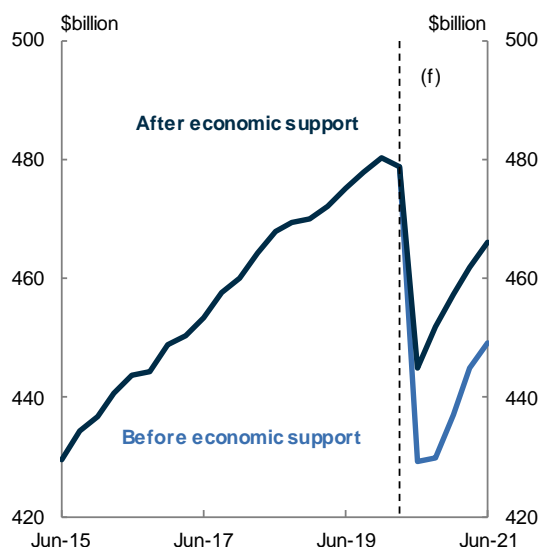
But COVID-19 is still having profound impacts on Australia's economy. The fallout from containment measures have been evident across all parts of the economy with record falls in key indicators of business investment, household consumption, the labour market and trade since early March.

The easing of containment measures in most parts of the country is expected to deliver a pick-up in activity in the September quarter and beyond. The economy is forecast to recover faster than in past recessions due to the lifting of restrictions, but it will still be a long road back and activity is expected to remain below pre-COVID-19 levels for some time.

In 2020, the Australian economy is expected to endure its largest annual fall in economic activity on official record. In calendar-year terms, real GDP is forecast to fall by 3¾ per cent in 2020 before rising by 2½ per cent in 2021. In financial-year terms, real GDP is forecast to fall by ¼ per cent in 2019-20 and by 2½ per cent in 2020-21.

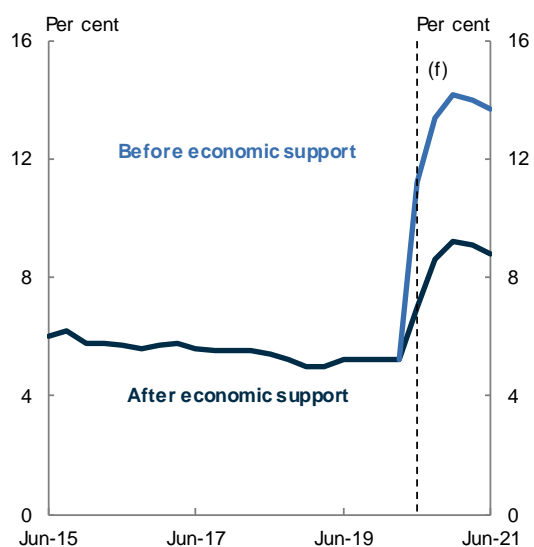
It is estimated that the Government's economic support in response to the COVID-19 pandemic will have increased the level of real GDP by around ¾ per cent in 2019-20 and will increase it by around 4¼ per cent in 2020-21 relative to the case of no policy support. Fiscal measures are also estimated to have lowered the peak of the measured unemployment rate by around 5 percentage points, preventing the loss of around 700,000 jobs.

Chart 1: Real GDP



Source: ABS cat. no. 5206.0 and Treasury

Chart 2: Unemployment rate



Source: ABS cat. no. 6202.0 and Treasury

The jobs market will take time to recover with the unemployment rate forecast to peak at around 9¼ per cent in the December quarter 2020. Beyond 2020, labour market conditions will strengthen but it will take some time for the unemployment rate to decline.

There remains significant uncertainty around the global and domestic recovery. Controlling the spread of the virus remains a key challenge with COVID-19 infections continuing to rise globally. Even where infection rates appear to have been controlled, further outbreaks, such as those experienced in Victoria, could set back recovery at any time. There are also risks to the global economic and financial architecture, including from substantial increases in public and private debt that could lead to credit tightening and financial instability, slowing the pace of recovery.

The extent of any longer-lasting effects from this crisis are also highly uncertain, particularly from the impact of persistently high unemployment or broader changes in the structure of the economy.

Table 1: Major economic parameters^(a)

	Outcome	Forecasts	
	2018-19	2019-20	2020-21
Real GDP	2.0	-1/4	-2 1/2
Employment ^(b)	2.5	-4.4	1
Unemployment rate ^(b)	5.2	7.0	8 3/4
Consumer price index	1.6	-1/4	1 1/4
Wage price index	2.3	1 3/4	1 1/4
Nominal GDP	5.3	2	-4 3/4

(a) Percentage change on preceding year unless otherwise stated. The consumer price index, employment, and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter.

(b) 2019-20 is an outcome.

Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

Fiscal Outlook

The Government has taken decisive action to support Australian households and businesses in dealing with the impacts of the COVID-19 pandemic. The Government is providing timely economic support with \$289 billion in fiscal and balance sheet measures, equivalent to around 14.6 per cent of GDP.

The Government's economic response, together with large declines in taxation receipts and increases in unemployment benefit payments, will see the budget move sharply into deficit in 2019-20 and 2020-21, with government debt also increasing significantly.

The Government's responsible fiscal management over the past six and a half years has provided the capacity to respond to the unprecedented economic challenges posed by the COVID-19 pandemic. Australia has low levels of debt-to-GDP compared to many other countries and in 2018-19 the Government returned the budget to balance for the first time in 11 years.

The COVID-19 pandemic is still evolving and the economic and fiscal outlook remains highly uncertain. In light of this uncertainty, the Economic and Fiscal Update presents fiscal estimates for 2019-20 and 2020-21 only. The Government will present fiscal estimates across the forward estimates and medium-term projections in the 2020-21 Budget, to be delivered on 6 October 2020.

The underlying cash deficit in 2019-20 is expected to be \$85.8 billion (4.3 per cent of GDP), a \$90.8 billion deterioration since the 2019-20 MYEFO. The estimate for 2020-21 has also been revised down significantly, with an expected deficit of \$184.5 billion (9.7 per cent of GDP), a \$190.6 billion deterioration since the 2019-20 MYEFO.

Gross debt was \$684.3 billion (34.4 per cent of GDP) at 30 June 2020 and is expected to be \$851.9 billion (45.0 per cent of GDP) at 30 June 2021. Net debt is expected to be \$488.2 billion (24.6 per cent of GDP) at 30 June 2020 and increase to \$677.1 billion (35.7 per cent of GDP) at 30 June 2021.

Table 2: Budget aggregates

	Actual	Estimates	
	2018-19 \$b	2019-20 \$b	2020-21 \$b
Underlying cash balance(a)	-0.7	-85.8	-184.5
Per cent of GDP	0.0	-4.3	-9.7
Gross debt(b)	542.0	684.3	851.9
Per cent of GDP	27.8	34.4	45.0
Net debt(c)	373.6	488.2	677.1
Per cent of GDP	19.2	24.6	35.7

(a) Excludes expected net Future Fund earnings before 2020-21.

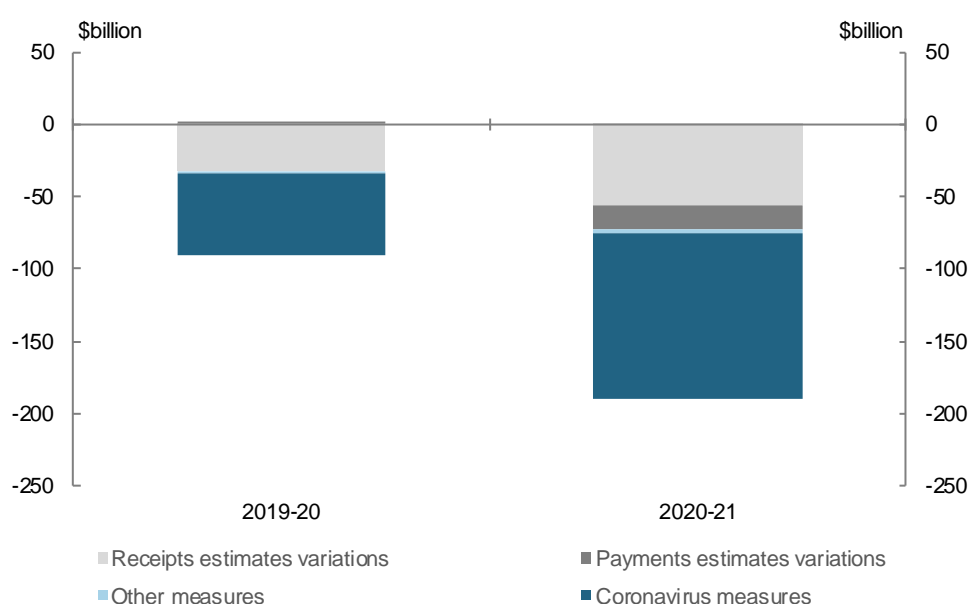
(b) Gross debt measures the face value of Australian Government Securities (AGS) on issue. The 2019-20 number is the actual face value at 30 June 2020.

(c) Net debt equals the sum of interest bearing liabilities (which includes AGS on issue measured at market value) minus the sum of cash and deposits, advances paid and investments, loans and placements.

The Government's response is temporary and targeted

The Government's economic response is temporary and targeted with measures designed to support the economy without undermining the structural integrity of the budget. The unwinding of the Government's economic response measures will ensure that the budget improves as the economy recovers. However, automatic stabilisers through the tax system and higher social security payments will continue to affect the budget bottom line for some time.

Chart 3 – Effect of measures and estimates variations on the budget position



Underlying Cash Balance

Policy decisions taken since the 2019-20 MYEFO have reduced the underlying cash balance by \$58.4 billion in 2019-20 and \$118.4 billion in 2020-21. This largely reflects the Government's response to the COVID-19 pandemic, with around \$172 billion in spending over two years in this response. In addition, the Government committed \$2 billion to establish the National Bushfire Recovery Fund in response to the bushfires of 2019-20.

Since the 2019-20 MYEFO, total parameter and other variations have reduced the underlying cash balance by \$32.4 billion in 2019-20 and \$72.2 billion in 2020-21. This primarily reflects the impact of the COVID-19 pandemic on the economic outlook and the effect of automatic stabilisers on both tax receipts and payments.

The COVID-19 pandemic is still evolving and the outlook remains highly uncertain. The fiscal outlook is based on the outlook for the domestic and global economies. The range of possible outcomes for GDP and unemployment in particular is substantially wider than normal. This translates into a higher than usual degree of uncertainty for the forecasts for tax receipts and payments, and as a consequence for the fiscal estimates.

Receipts

Total receipts (including Future Fund earnings) have decreased by \$33.0 billion in 2019-20 and \$61.1 billion in 2020-21 since the 2019-20 MYEFO.

Since the 2019-20 MYEFO, tax receipts have been revised down by \$31.7 billion in 2019-20 and \$63.9 billion in 2020-21. The downward revisions are across all major heads of revenue, consistent with falling average earnings, along with lower forecasts for employment and consumption in 2020-21. The outlook for tax receipts remains uncertain. This reflects both uncertainty around the economic outlook and how this interacts with structural and administrative features of the tax system, such as the ability of taxpayers to carry forward losses to offset future income.

Payments

Payments have increased by \$187.5 billion over two years from the 2019-20 MYEFO estimates. They are expected to be \$550.0 billion in 2019-20 (27.7 per cent of GDP), rising to \$640.0 billion in 2020-21 (33.8 per cent of GDP). This increase is as a result of the Government's targeted responses to the COVID-19 pandemic to support Australia's economy, as well as the impact of automatic stabilisers including the payment of unemployment benefits.

Key Policy Measures

The Government has acted decisively in response to the COVID-19 pandemic to protect Australians from the health consequences of the pandemic and support households, businesses and industries.

The Government has committed \$9.4 billion for the health response to protect Australians, including vulnerable groups such as the elderly and those with chronic conditions, from the COVID-19 pandemic. This includes funding for large-scale purchases of Personal Protective

Equipment, boosting Australia's testing capacity and ensuring access to essential health services through expanded telehealth and hospital services.

The Government's economic response to COVID-19 provides temporary and timely support to affected workers, businesses and the broader community, and has kept Australians in jobs, and businesses in business. The economic support totals \$289 billion in fiscal and balance sheet measures, equivalent to around 14.6 per cent of GDP.

This includes providing support to:

- **Households and individuals** through payments to assist lower-income Australians, including pensioners, income support recipients and eligible concession card holders
- **Businesses and employers** through the JobKeeper Payment, temporary cash flow support for employers, increasing and expanding access to the instant asset write-off, as well as putting in place temporary relief for financially-distressed businesses and other targeted relief to facilitate the continuation of business
- **Help Australians build skills and return to work** by funding additional training to ensure Australians have access to the critical skills needed as the economy recovers
- **Ensure the flow of credit** through coordinated action with the Reserve Bank of Australia and the Australian Prudential Regulation Authority
- **Regions, communities and industries** most affected by the economic impacts of the pandemic, including the aviation, agriculture, fisheries, tourism, and arts sectors.

Newly announced measures

The Government is supporting the re-opening of the economy and getting people back into jobs, while assisting those still affected by health restrictions and protecting against further spread of the virus.

The JobKeeper Payment is being extended at a tapered level for an additional 6 months, from 28 September 2020 until 28 March 2021, to provide further support to those businesses that continue to be significantly affected by the economic downturn. Income support for individuals will also continue with the Coronavirus Supplement being extended to 31 December 2020, at a lower payment rate.

Individuals who are still financially impacted by the COVID-19 pandemic will also have more time to apply for the early release of up to \$10,000 of superannuation, with the application period extended from 24 September 2020 to 31 December 2020.

The JobTrainer Skills Package establishes the JobTrainer Fund to provide additional low and no fee training places for job seekers and school leavers, and extends the Supporting Apprentices and Trainees wage subsidy for a further 6 months to 31 March 2021 and expands it to medium-sized businesses from 1 July 2020.

The Government is also extending the COVID-19 SME Guarantee Scheme to loans written until 30 June 2021, and making targeted amendments to ensure that the loans available suit the evolving needs of SMEs.

Further details on the Government's policy measures since the 2019-20 Mid-Year Economic and Fiscal Outlook can be found in *Appendix A* to the Economic and Fiscal Update.

Summary of key policy measures

	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m	2023-24 \$m	Total FEs \$m
COVID-19 Response Package						
Measures taken in response to the economic crisis						
JobKeeper Payment	-20,576	-65,126	0	0	0	-85,702
Boosting cash flow for employers	-14,900	-17,000	0	0	0	-31,900
Income support for individuals <i>(including Coronavirus Supplement)</i>	-5,945	-11,585	834	-34	-22	-16,752
Payments to support households	-5,601	-3,727	-34	-2	0	-9,365
Infrastructure stimulus	0	-2,168	-1,152	-550	-11	-3,881
Backing business investment	0	-1,500	-5,200	200	3,300	-3,200
Supporting apprentices and trainees	-364	-2,391	-56	-3	7	-2,807
Temporary early access to superannuation	-30	-490	-540	-560	-600	-2,220
JobSeeker Partner Income Test measure	-508	-1,262	-103	-84	-56	-2,013
Aviation support	-564	-1,373	-2	-1	0	-1,940
Increasing and extending the instant asset write-off	0	-2,400	-800	1,400	800	-1,000
Relief and Recovery Fund	-299	-701	0	0	0	-1,000
HomeBuilder Grant	0	-680	0	0	0	-680
Social Services <i>(including Emergency Food Relief and support for at-risk individuals)</i>	-376	-215	0	0	0	-590
JobTrainer Fund — establishment	-8	-537	-16	-18	-7	-587
Communications, cyber safety and the arts	2	-263	-27	-32	-80	-400
Child care	-105	-207	0	0	0	-312
<i>Other economic measures</i>	-1,167	-190	1,103	211	281	239
Subtotal – economic measures	-50,439	-111,815	-5,992	528	3,611	-164,107

	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m	2023-24 \$m	Total FEs \$m
Measures taken in response to the health crisis						
Supporting our hospitals	-2,955	-708	0	0	0	-3,664
Emergency response (including PPE and testing)	-2,196	-1,235	0	0	0	-3,431
Guaranteeing Medicare and access to medicines	-717	-732	0	0	0	-1,449
Ageing and aged care	-375	-372	3	1	0	-743
Other health measures	-30	-117	10	0	0	-137
Subtotal – health measures	-6,273	-3,163	13	1	0	-9,423
TOTAL – COVID-19 Response Package	-56,712	-114,978	-5,979	529	3,611	-173,532

Bushfire response measures

National Bushfire Recovery Fund	-868	-765	-305	-159	-8	-2,104
Other bushfire response measures	-233	-56	-22	-11	-12	-334
TOTAL – bushfire response measures	-1,100	-821	-327	-170	-20	-2,437
Other measures	-587	-2,578	-1,179	-193	326	-4,211

TOTAL IMPACT OF DECISIONS SINCE THE 2019-20 MYEFO	-58,399	-118,377	-7,485	166	3,917	-180,179
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Note: Measures are rounded and totals may not sum.

Balance sheet support in response to COVID-19

Government support for immediate cash flow needs of SMEs (includes \$90 million in concessional loans through the Arts and Entertainment Guarantee Scheme)	Up to \$20 billion
Australian Office of Financial Management – Structured Finance Support Fund	Up to \$15 billion
Reserve Bank of Australia – Term Funding Facility	At least \$90 billion
TOTAL – Balance sheet support	\$125 billion

Total economic support in response to COVID-19

COVID-19 Response Package – economic measures	\$164 billion
Balance sheet support	\$125 billion
Total	\$289 billion