ITALIAN TRADE AGENCY

Sydney Office

ECONOMIC RECOVERY PLAN FOR AUSTRALIA
2020-21 FEDERAL BUDGET (6 October 2020)

The Covid-19 pandemic has had a profound impact on Australia's health system, community and economy, as it has all around the world. The global economy is expected to contract by 4.5% this year, and Australia has not been immune.

The 2020-21 Federal Budget, announced Tuesday 6 October in Canberra, commits to a further response of **$98 billion**, bringing the Government's overall support to **$507 billion**, including $257 billion in direct economic support. The new measures are designed to rebuild the economy, create **950,000 jobs** over the next four years and secure Australia's future, through well-targeted fiscal measures to support demand, confidence and productivity.

While the real **GDP fell by 7%** in the June quarter 2020 (with recent FMI predictions of -4.2% in 2020 and -3% in 2021), and the jobless rate is expected **to peak at an unprecedented 8%** late this year, the Coalition has abandoned warnings of a debt and deficit disaster, acknowledging that to grow the economy the Government should be spending more, at least until unemployment is "comfortably within" 6%.

Treasurer Josh Frydenberg echoed those sentiments in his budget speech to Parliament:

"There is no economic recovery without a job recovery. This budget **is all about jobs**.
The budget suggests that **by the middle of 2024** our economy will be operating at near capacity, but that is the "new post-Covid" capacity. While that might sound good, what the budget also reveals is that by then our economy will be around 4.5% smaller than we would have hoped it would have been before the virus hit. What that means is the economy has shrunk – permanently."

One of the big numbers of this budget is debt – a scary-sounding net debt of $703 billion or 36% of GDP this year and **net debt of $966 billion** by 2023-24. But $966 billion of net debt is decent at **44% of GDP,** and it is actually very good against global peers.

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The Government is trying to extricate the economy from its **first recession after 30 years of continuous growth:** Australia entered the crisis relatively well placed to respond, with net debt standing at less than a quarter of GDP versus an average of over 80% in advanced G-20 economies.

Trust towards Australia was expressed by credit Rating Agencies Moody's Investors Service and Fitch Ratings, that confirmed **Australia's AAA rating,** following S&P Global Ratings' assessment soon-after Tuesday night's budget.

Main economic indicators:

- **Debt**: gross debt to approach $1 trillion, deficit to exceed $200 billion;
- **Unemployment**: joblessness is tipped to rise from 7.5% this financial year to 8% the following year before easing to 6.5% in 2022-23.
- **Migration:** the budget confirmed more people will leave the country than arrive over the next two years, with net migration levels to fall into negative for the first time since the end of World War II; a gradual return of permanent migrants and international students is assumed late in 2021.
- **Interest Rate:** during the Great Financial Crisis the **Reserve Bank of Australia** was able to cut interest rates from 7.25% to 3.0%; this time around, with the cash rate and yield target unchanged at 0.25%, the RBA can't do anything like that, so overwhelmingly the responsibility on stimulating the economy is on the Government.

Until a vaccine is developed and widely deployed, significant uncertainty remains. Through this phase, the Government will maintain flexibility to respond to the circumstances as they evolve.

THREE MAIN TARGETED MEASURES

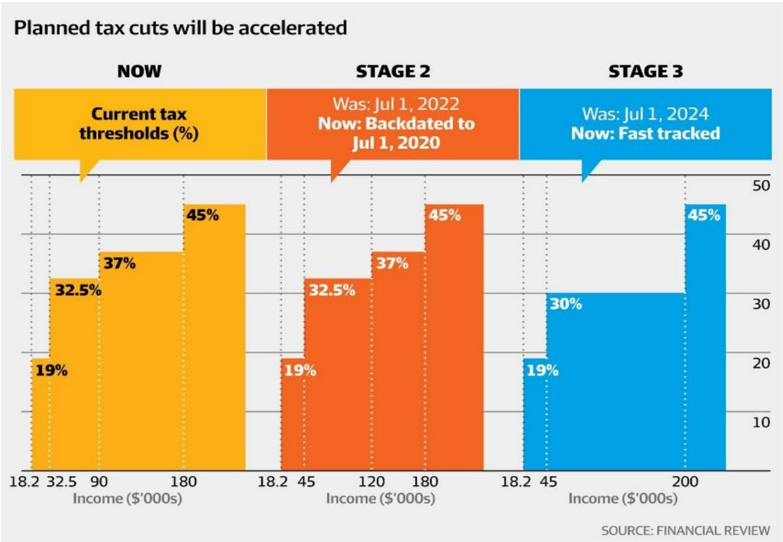
The Australian economy is currently in recession as a result of the COVID-19 pandemic, but the Government's previous fiscal strategy served Australia well, ensuring the country is now placed to provide an unprecedented level of support to households and businesses.

NEW TAX CUTS for HOUSEHOLDS and INDIVIDUALS

In the new Budget, the Australian government is not raising any growth killing taxes to get itself out of deficit, but is in fact cutting them by delivering an additional **$17.8 billion in personal income tax relief** to support the economic recovery: "stage two" tax cuts that were due to start in July 2022, will be even backdated to July 2020. That means the income threshold for 19% tax bracket rises to $45,000 from $37,000 and threshold for 32.5% tax bracket to $120,000 from $90,000, until June 2024. Income over $200,000 would be taxed at 45%.

More than **7 million Australians** will get a tax relief of $2,000 or more this year. The greatest benefit will flow to those on lower incomes, with those earning $40,000 paying 21% less tax, and those

earning $80,000 paying about 11% less tax this year. These expanded tax cuts are part of a major structural reform to the tax system that will see about **95% of tax payers** facing a marginal tax rate of no more than 30 cents in the dollar by 2024.
Treasury forecasts that, if consumer confidence rebounds and people will spend the income tax cuts, it will create **40,000 jobs.**



NEW TAX INCENTIVES for BUSINESS

To support new investments and increase business cash flow, the Government is providing a temporary tax incentive that will be available to 99% of businesses, which employ around 11.5 million workers. The incentive will apply to businesses with **turnover up to $5 billion**, that will be able to deduct the full cost of eligible depreciable assets of any value in the year they are installed, until June 2022. The Government will also allow companies with turnover up to $5 billion to offset losses against previous profits on which tax has been paid, to generate a refund.
The plan, designed to improve cash flow for qualifying business, represents the largest set of investment incentives any Australian government has ever provided in history, that will unlock investments and dramatically expand the productive capacity of the Nation.

Treasury estimates the combined **$31.6 billion** in business tax relief will create **50,000 jobs**. Small business and start-up with a turnover of $10million to $50million will be able to claim up to 10 tax breaks; it will cost $ 105 million.

EMPLOYMENT: JOBMAKER and JOBTRAINER

Labour market programs will be pivotal, the government reducing the existing (ref. https://www.ice.it/it/mercati/australia/covid-19-provvedimenti-risanamento-economia-australia-nuova-zelanda) *JobSeeker* unemployment benefits and the *JobKeeper* wage subsidies, in favour of two new programs: 5-year *JobMaker Plan* and *JobTrainer* (valid until October 2021).

The Government's new ***"JobMaker* Hiring Credit Scheme"** will help to accelerate growth in employment during recovery by giving businesses incentives to take on additional employees who are young job seekers aged 16 to 35. The credit will be payable for up to 12 months and immediately available to employers. It will be paid at the rate of $200 per week for those aged under 30 and $100 per week for those aged 30 to 35. All business, other than major banks, will be eligible.

The *JobMaker* is estimated to create an additional **50,000 jobs** at a cost of **$4 billion** from 2020-21 to 2022-23. (The cost is still dwarfed by JobKeeper program, that now supports 3.5 million workers and is set to phase out in March 2021, at the cost of $ 101 billion).

Additionally, the Australian government is making skills development a high priority, as part of its *JobMaker* Plan: the commitment will support getting people into jobs and ensuring that Australians have the right skills for the jobs of the future, with the "***JobTrainer* Wage Subsidy**" program and new apprenticeships courses to reskill and upskill them. A **$1 billion** *JobTrainer* fund is established, to create low-cost training places for job seekers: business who employ apprentices will be eligible to receive up to a 50% wage subsidy, until September 2021.

The Government committed also to an additional **$1.2 billion** to create 100,000 new apprenticeships and traineeships, with a 50% wage subsidy for businesses who employ them.

ECONOMIC SECTORS – NEW SPENDING MEASURES
(ref. https://www.ice.it/it/sites/default/files/inline-files/Prospettive_2ottobre.pdf

MANUFACTURING

The COVID-19 pandemic unrevealed the critical importance of the Supply chain and of a flexible, adaptable and innovative manufacturing capability: Australia has been lacking to this regard.
The measures built on the *JobMaker* platform are to enable the local manufacturing to be globally competitive; a process augmented through better skills and training, cheaper and more reliable energy, lower taxes, less red tape and more flexible workplaces.

The Government's **$1.5 billion Modern Manufacturing Strategy** is a long-term plan to support Australia's economic recovery with plans to shore up local production and strengthen the supply chains. Grants are reserved to companies that co-invest to boost production in six priority areas, to improve self-sufficiency and to create jobs:

- resources technology and minerals processing;
- food and beverage;
- medical products;
- recycling and clean energy;
- defence;
- space.

INFRASTRUCTURE

Since the start of the COVID-19 pandemic the Government has committed to invest a total of about **$ 14 billion** in new and accelerated infrastructure projects over the next four years. These projects will support a further 40,000 jobs.
This investment is part of the Government's record **10-year transport infrastructure investment pipeline**, which has been expanded to $110 billion and is already supporting 100,000 jobs on worksites across the country.
The Government did not announce any big flashy new projects but road and rail are the winners, with New South Wales getting more than any other State, including the Sydney Metro-Western Sydney Airport line.

RESEARCH & DEVELOPMENT

The Government has backflipped on previously proposed cuts to R&D and is investing an additional **$2 billion** through the **Research and Development Tax Incentives**. In an effort to boost advanced manufacturing, the Treasurer declared that "a resilient and competitive manufacturing sector should be at the heart of a modern Australian economy".

UNIVERSITIES

Universities has been urging the Government to inject new money into research to make up for the lost due to the collapse in international student income (estimated to be $ 1.5 billion).
On top of the R&D incentive above, Universities will get **$1 billion** extra, to support significant research infrastructure, secure research jobs and strengthen partnership with industries.

AVIATION

Tourism drives most of the decrease of the Australian economy in 2020-21: due to the international borders' lockdown, between April and July visitors' arrivals were down by over 98% compared with the same period in 2019. The two major airlines – Virgin Australia and Qantas – were forced to cancel routes, many jobs were lost and the Government had to implement rescue plans.
Taxpayers will provide an additional **$356 million** to support the aviation sector. This brings the total support for the aviation industry during Covid to $ 2.7 billion.

HOUSING CONSTRUCTION

To help young couples and boost construction and property development, an extra 10,000 first home buyers will be able to obtain a loan to build or buy a newly built home with a deposit of as little as 5% (vs 20%). the Government will also increase the caps on the price of newly built homes to as much as $950,000 from $750,000 (Sydney), $850,000 from $600,000 (Melbourne), $650,000 from $450,000 (Brisbane).

A DIGITAL AUSTRALIA

The COVID-19 pandemic has accelerated the adoption of digital technologies by businesses and consumers. A $4.5 billion upgrade to the national network will bring ultra-fast broadband to millions of families and businesses.

HEALTH SYSTEM, PENSIONNERS, ETC.

$4.9 billion for a range of **health** measures, to ensure Australians continue to receive the medical care and support they need throughout the pandemic.
The economic statement included new spending on **aged care** services, providing 23,000 extra Home care packages costing $ 1.6 billion, for the elderly to receive care in their homes.

$ 2.6 billion in additional stimulus for aged and disabled **pensioners**: “Senior Australians have faced enormous challenges during COVID-19, including isolation and separation from their children, grandchildren and friends.”

$ 55.6 million to reactivate Christmas Island’s High security **detention centre** to hold hundreds of foreign criminals who cannot be deported because of the coronavirus pandemic.

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A very hard-edged pragmatism is underpinning Australian New Economic Recovery Plan, accepting as inevitable for a lot of businesses to confront the reality that the world where they once successfully operated has now gone, and some of them will have to go too.
To ease their path, the Australian Government, as JobKeeper winds down, is softening insolvency processes, and the prospect that the workers they will have to sack may be re-employed somewhere else, after a short time, in a subsidised job or apprenticeship.
But there is still nothing for the million or so people who have been stranded here – such as temporary and skilled visa holders – with no assistance.
Despite all the uncertainty, Treasury’s view is that many parts of the economy are doing quite well. **Agriculture** is snapping back from drought, the argument goes, amidst tensions with China (first market for Australia); the **Mining sector** and all the natural riches of the Country are still rolling over at a healthy pace; and the **Construction sector** looks reasonably positive, despite a historic fall in population growth. Yes, **tourism** has been hit hard. But with Australians unable to travel overseas, the substantial spending that would head offshore is being turned back into the local economy.

SOURCES

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