

Australia Unveils Fiscal Stimulus

- **Australia introduced fiscal stimulus measures today, joining global efforts to combat the economic downturn caused by the COVID-19.**
- **The fiscal stimulus package, equivalent to 0.9% of GDP, focuses on boosting investment, supporting employment, and underpinning household spending.**

The Australian government announced a fiscal stimulus package totalling AUD17.6 bn (USD 11.4 bn) on March 12 in order to offset intensifying downward pressure on the Australian economy caused by the global COVID-19 outbreak. The fiscal stimulus package is equivalent to 0.9% of GDP, with most outlays targeted at the second quarter of 2020. In addition, the government committed an extra AUD 2.4 bn for Australia's health care system and also promised to cover additional costs related to the diagnosis and treatment of the virus.

The fiscal boost will complement the Reserve Bank of Australia's monetary easing efforts; in early March, the central bank cut its benchmark interest rate by 25 bps to 0.50% and is expected to inject further monetary stimulus at the next meeting on April 7. With the announced fiscal measures the Australian government has relaxed its prior commitment of reaching a budget surplus in the current fiscal year (July–June). However, the measures will not extend beyond June 2021, allowing public finances to return to a sustainable trajectory relatively quickly.

We assess that the fiscal boost will prevent the Australian economy from dipping into a recession. We estimate that the country's real GDP will decline in the January–March period, as the COVID-19 outbreak and the impact of bushfires weigh on sentiment and economic activity. Nevertheless, the economy may be able to avoid two consecutive quarters of contracting output—a technical definition of a recession—on the back of authorities' monetary and fiscal stimulus efforts, as well as the weak Australian dollar. Nevertheless, as the seriousness of the virus outbreak in Australia remains unknown at this point, we note that uncertainties remain high and risks are tilted to the downside. Accordingly, we do not exclude the possibility of further fiscal stimulus being announced over the coming months.

The fiscal stimulus package aims to deliver on four fronts:

- 1) Support business investment (measures total AUD 3.9 bn)
 - by increasing the instant asset tax write-off limit, and
 - by accelerating depreciation deductions;
- 2) Provide cash flow assistance for businesses (measures total AUD 7.96 bn)
 - by helping small and medium-sized firms to cover the cost of wages, and
 - by supporting employers with wage assistance to keep their apprentices and trainees;
- 3) Support households with cash handouts (measures total AUD 4.764 bn)
 - by providing one-off payments of AUD 750 to welfare recipients and lower-income households in order to underpin confidence and spending;
- 4) Help affected regions and communities (measures total AUD 1.0 bn)
 - by providing financial support to help them recover from the outbreak and the associated economic damage.

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