

AUSTRALIAN ECONOMIC ESSENTIALS

GOVERNMENT COVID-19 ECONOMIC STIMULUS MEASURES



24 MARCH 2020

GOVERNMENT RESPONSES TO THE CRISIS

The spread and economic impact of the COVID-19 pandemic is fast evolving, as such government responses are being updated continually. So far, the response can be grouped into four parts:

1. Treating those infected.
2. Limiting the spread of the virus.
3. Stimulus to reduce the economic impact of the limitation measures. The government aims to do this by providing assistance to businesses, so they are in a better position to survive the crisis and rehire when normality returns. The government also aims to support individuals who have lost their job or otherwise been impacted by the limitation measures.
4. Regulatory and legislative changes at the State and National level for dealing with the crisis. The range of measures is broad and fast evolving. These include provision for the early release of prisoners, forcing people to self-isolate, allowing bars to home deliver as well as changes to the Retail Trading Act (NSW) to extend the hours available to trade and restock.

This note will focus on stimulus measures and largely draws on material from <https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/supporting-australian-workers-and-business>

SUMMARY OF AUSTRALIAN STIMULUS MEASURES TO DATE

Australian government stimulus measures as at 24 March, total \$189 billion or about 10% of GDP and are in two forms:

- a. Fiscal, or direct spending by the government and/or regulatory changes.
- b. Monetary, or measures undertaken by the Reserve Bank of Australia to increase the money supply and so attempt to maintain or limit the reduction in economic activity.

Government economic support is mainly targeted at individuals or SMEs with three broad aims:

1. Support for households including casuals, sole-traders, retirees and those on income support.
2. Regulatory protection and financial support for businesses to stay in business.
3. Assistance for businesses to keep people in a job.

Fiscal measures

- A \$66 billion economic stimulus package by the Federal Government announced on 22/03/2020.
- An initial A\$17.6 billion economic stimulus package announced on 13/03/2020.
- \$15 billion from the Federal Government to deliver easier access to finance.

KEY POINTS:

Government economic support is mainly targeted at individuals or SMEs with three broad aims:

1. Support for households including casuals, sole-traders, retirees and those on income support
2. Regulatory protection and financial support for businesses to stay in business
3. Assistance for businesses to keep people in a job

Key support measures include:

SMEs

- Tax free cash payments up to \$100,000
- Guarantee 50% of new loans issued by eligible lenders to SMEs (up to \$40 billion in loans).
- Temporarily relaxing rules around statutory demands and bankruptcy.
- RBA providing \$90 billion in funding (via ADIs) for loans to businesses

Individuals

- Temporarily doubling unemployment payments for workers losing jobs due to pandemic
- Two payments of \$750 for some welfare recipients
- Early super access of up to \$20,000
- Reducing deeming rates and minimum super drawdown rates

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FISCAL MEASURES INCLUDE

Measures in the A\$66.1 billion package include:

- SME businesses will receive tax free cash payments up to \$100,000 and some welfare recipients will receive another \$750
- Temporarily doubling unemployment payments for workers losing jobs due to pandemic
- Allowing people to access \$10,000 per annum from their retirement savings (superannuation) in 2019-20 and 2020-21
- The Government will guarantee 50 per cent of new loans issued by eligible lenders to SMEs (up to \$40 billion in loans).
- Measures to improve retirees access to Government assistance (reduction in deeming rates)

MONETARY MEASURES INCLUDE

Reserve Bank of Australia (RBA) measures include \$90 billion to help stimulate economy and prevent a credit freeze, (similar to GFC), and include:

- Cutting the cash rate target to 0.25%.
- Commencing Australia's first quantitative easing program, which includes:
 - Buying Australian 3-year govt bonds in secondary market with target yield of 0.25%. This Followed a bond sell off and fears of a global credit squeeze/freeze.
 - Provide 3-year funding facility to support credit to SMEs (\$90 billion).
 - Remuneration of exchange settlement balances at 10 bp, rather than zero

ECONOMIC SUPPORT MEASURES FOR INDIVIDUALS AND BUSINESSES

MEASURES TO SUPPORT INDIVIDUALS AND HOUSEHOLDS:

Income support, cost \$14.1 billion.

- \$550 per fortnight, on top of the existing \$550 payment each fortnight.

Coronavirus supplement payments for the next six months. This is a temporary expansion of the eligibility for income support payments and a new, time-limited Coronavirus supplement. It is to be paid to both existing and new recipients of the JobSeeker Payment, Youth Allowance jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit:

To help process the extra demand, there will be an increase of up to 5,000 staff for Services Australia.

Household support, cost \$4 billion.

- Two payments of \$750.

Eligible payment recipients include social security and veteran income support recipients and eligible concession card holders, except for those who are receiving an income support payment that is eligible to receive the Coronavirus supplement.

The first payment will be made from 31 March 2020 to people who will have been on one of the eligible payments any time between 12 March 2020 and 13 April 2020.

The second payment will be made automatically from 13 July 2020 to around 5 million social security, veteran and other income support recipients and eligible concession card holders. Around half of those that benefit are pensioners.

Early release of superannuation, cost \$1.2 billion.

- Access up to \$20,000, made up of \$10,000 in 2019-20 and a further \$10,000 in 2020-21.

For individuals in financial stress as a result of the Coronavirus.

Eligible individuals will be able to apply online through myGov before 1 July 2020. A further \$10,000 can be accessed for three months from 1 July 2020. The payments are tax free and withdrawals will not affect Centrelink or Veterans' Affairs payments.

MEASURES TO SUPPORT INDIVIDUALS AND HOUSEHOLDS (CONT):

Reducing social security deeming rates, cost \$876 million.

- A reduction of deeming rates by a further 0.25 percentage points.

This is on top of the 0.50 percentage point reduction from the first package and reflects the latest rate reductions by the RBA. As of 1 May 2020, the lower deeming rate will be 0.25 per cent and the upper deeming rate will be 2.25 per cent. The change will benefit around 900,000 income support recipients, including Age Pensioners. By reducing deemed income (interest on savings), retirees gain access to more government assistance measures.

Temporarily reduce superannuation minimum drawdown rates.

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 by providing them with more flexibility as to how they manage their superannuation assets.

MEASURES TO SUPPORT BUSINESSES:

Boosting Cash Flow for Employers, cost \$31.9 billion.

- Up to \$100,000 to eligible small and medium sized businesses (SMEs), and not-for-profits (NFPs) including charities, that employ people, with a minimum payment of \$20,000.
- An additional payment is also being made from 28 July 2020. Eligible entities will receive an additional payment equal to the total of all of the Boosting Cash Flow for Employers payments received.

Eligible SMEs and NFPs entities, including charities, will have aggregated annual turnover under \$50 million and employ workers.

These payments are designed to help SMEs and NFPs cash flow, to keep operating, pay their rent, electricity and other bills and retain staff.

Under the enhanced scheme from the first package, 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. The payment will be available from 28 April 2020.

By linking the payments to business to staff wage tax withholdings, businesses will be incentivised to hold on to more of their workers.

The payments are tax free, there will be no new forms and payments will flow automatically through the ATO.

This measure will benefit around 690,000 businesses employing around 7.8 million people, and around 30,000 NFPs (including charities).

Coronavirus SME Guarantee Scheme.

- The Government will guarantee 50 per cent of new loans issued by eligible lenders to SMEs i.e. guarantee up to \$20 billion to support \$40 billion in SME loans.
- It further supports the Reserve Bank of Australia's announcement of a \$90 billion term funding facility for authorised deposit-taking institutions (ADIs). This will:
 - Reduce the funding costs of ADIs (to 25 basis points for a fixed term), and in turn help to reduce interest rates for borrowers.
 - Encourage ADIs to support businesses during a difficult period. ADIs will have access to additional low-cost funding if they expand their lending to businesses over the period ahead. The scheme encourages lending to all businesses, although the incentives are stronger for SMEs.

The Coronavirus SME Guarantee Scheme is designed to enhance lenders' willingness and ability to provide credit to SMEs and so enhance access for working capital to keep SMEs running.

MEASURES TO SUPPORT BUSINESSES (CONT):

Coronavirus SME Guarantee Scheme, cont.

The Scheme will complement the announcement the Government has made to cut red-tape to allow SMEs to get access to credit faster. It also complements announcements made by Australian banks to support small businesses with their existing loans.

This builds on the investment the Government is making to enable smaller lenders to continue supporting Australian consumers and small businesses, through providing the AOFM an investment capacity of \$15 billion to invest in wholesale funding markets used by small authorised deposit-taking institutions (ADI) and non-ADI lenders.

Providing temporary relief for financially distressed businesses.

- Temporarily increasing the current minimum threshold for creditors issuing a statutory demand on a company under the Corporations Act 2001 from \$2,000 to \$20,000. This will apply for 6 months.
- The statutory time frame for a company to respond to a statutory demand will be extended temporarily from 21 days to 6 months. This will apply for 6 months. Not responding to a demand within the specified time creates a presumption that the company is insolvent.
- To assist individuals, the threshold for the minimum amount of debt required for a creditor to initiate bankruptcy proceedings against a debtor will temporarily increase from its current level of \$5,000 to \$20,000. This will apply for 6 months.
- The time a debtor has to respond to a bankruptcy notice will be temporarily increased from 21 days to 6 months. The extension will give a debtor more time to consider repayment arrangements before they could be forced into bankruptcy. This will apply for 6 months. Failure to respond to a bankruptcy notice is the most common act of bankruptcy.
- When a debtor declares an intention to enter voluntary bankruptcy by making a declaration of intention to present a debtor's petition there is a period of protection when unsecured creditors cannot take further action to recover debts. This period will be temporarily extended from 21 days to 6 months. This will give debtors more time to consider the options that are best for them. This will apply for 6 months.
- Creditors, many of whom are themselves small businesses, will still have the right to enforce debt against companies or individuals through the courts.
- Temporary relief for directors from any personal liability for trading while insolvent. The Corporations Act 2001 will be amended to provide temporary and targeted relief for companies to deal with unforeseen events that arise as a result of the Coronavirus. Temporary relief from personal liability for insolvent trading will apply with respect to debts incurred in the ordinary course of the company's business. Egregious cases of dishonesty and fraud will still be subject to criminal penalties. Any debts incurred by the company will still be payable by the company.

These measures build on the support for business and business investment provided from first economic support package, which included: Increasing the instant asset write off; backing business investment by providing accelerated depreciation deductions; supporting apprentices and trainees; targeted support for Coronavirus-affected regions and communities

Support for the aviation industry.

- Up to \$715 million in support for Australian airlines and airports..