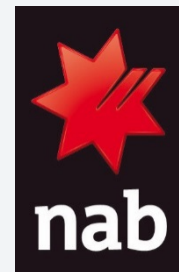


NAB'S VIEW ON FISCAL POLICY 12 MARCH 2020

FISCAL STIMULUS TO SUPPORT NEAR-TERM GROWTH, WITH MORE LIKELY TO COME IN THE MAY BUDGET



NAB Economics

The Commonwealth government has announced a substantial fiscal stimulus of \$18b (0.9% of GDP) to support the economy in the face of the coronavirus outbreak. The stimulus will be rolled out quickly, with a focus on supporting business investment, minimising possible job losses and boosting consumer spending with welfare recipients receiving a one-off cash handout at the end of March. The measures provide a significant boost to near-term growth, with about \$11b of spending adding an estimated 1.5pp to growth in Q2. This is a welcome development, with fiscal and monetary policy now working together to address the economic impact of the coronavirus. Importantly, the measures can be expanded as needed and new policies are likely to be announced in the May budget, where there is ample scope for further fiscal support. For our forecasts, we are now more comfortable in forecasting a small rise in Q2 GDP after a travel-ban driven contraction in Q1. However, the magnitude and duration of the impact of the coronavirus on both the global and domestic economies is extremely uncertain, as are public health containment measures. As a result, we still see further action on monetary policy with a 25bp cut in April and a move to yield curve control by mid year.

- **Fiscal stimulus reduces the risk of GDP contracting in Q2.** The announced policies shift the risks around our near-term growth forecasts. We still expect GDP to contract in Q1 given the hit to international tourism and education exports from the travel ban, but are now more comfortable with forecasting a small rebound in Q2, with an overall flat result for GDP in H1 2020. Treasury estimates the front-loading of these measures will boost GDP by around 1.5% in Q2, with the overall stimulus of about 1% mainly spread over the rest of this financial year and the next two financial years. Further out, we still see a recovery in growth from Q3 onwards, though this view remains highly uncertain, particularly given the rapidly-changing nature of the outbreak.
- **We still see a clear role for further near-term action from the RBA.** Our outlook for monetary policy is unchanged: we still expect the RBA to cut by a further 25bp in April to the RBA's self-imposed lower bound of 0.25%, with the RBA adopting unconventional policy in the form of "yield curve control" by mid-year (this could be as soon as April depending on the path of the virus and the state of the economy and financial markets). Fiscal and monetary policy working in tandem is important to support the economy given underlying weakness in the economy and the significant shock from the spread of the coronavirus. Today's announcement is very positive, but the focus of the RBA will be on keeping interest rates low to support demand, while avoiding any upward pressure on the exchange rate, particularly when foreign central banks have cut rates by more than the RBA to date, albeit from a higher starting point.

The main measures are designed to:

- **Boost business investment.** The government is: (1) increasing the threshold for the instant asset write-off and expanding access (costing \$2.3b in 2020-21 and \$0.2b in 2021-22); and (2) accelerating depreciation deductions (\$1.5b in 2020-21 and \$5.2b in 2021-22). The instant asset write-off will run until 30 June 2020, while the accelerated deductions will be available until 30 June 2021. The measures apply to 3.5m businesses with 9.7m employees.
- **Minimise potential job losses.** This involves: (1) boosting cash flows for small- and medium-sized business via a tax subsidy to about 0.7m firms employing 7.8m people. The subsidy will be available from 1 January to 30 June 2020 (\$5.9b in 2019-20 and \$0.8b in 2020-21); and (2) offering a subsidy for up to half the wage of apprentices and trainees from 1 January to 30 September 2020. This will support about 0.1m apprentices (\$0.2b in 2019-20 and \$1.1b in 2020-21).
- **Boost consumer spending.** There is a one-off payment of \$750 to over 6m welfare recipients, paid from 30 March 2020 onwards (\$4.8b in 2019-20).
- **Regional financial assistance.** There is financial support to regions most affected by the virus, mostly paid from Q3 onwards (\$0.1b in 2019-20 and \$0.9b in 2020-21).

Other government measures are:

- **Increased spending for health.** The government has previously announced \$2.4b in extra spending across primary care, aged care, hospitals and research. The government will also pay half the costs incurred by the states in diagnosing, treating and minimising the spread of the virus.

- **Reducing the deeming rate for pensioners.** This is related to the RBA rate cut and boosts pension payments, with the government reducing the interest rate that pensioners are deemed to have earned when applying the income test. The costs an estimated \$0.2b per annum, boosting payments by an estimated \$219 per annum for about 0.9m pensioners.

Table 1: Stimulus measures

	Measure	Timing	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Business investment	1. Instant asset write-off	Now to 30-Jun-20	-	2.3	0.2	-1.4	-0.4	0.7
	2. Accelerated depreciation deduction	Now to 30-Jun-21	-	1.5	5.2	-0.2	-3.3	3.2
	Total		-	3.8	5.4	-1.6	-3.7	3.9
Cash-flow assistance for business	1. Wage subsidy for SMEs	1-Jan-20 to 30-Jun-20	5.9	0.8	-	-	-	6.7
	2. Wage subsidy for apprentices	1-Jan-20 to 30-Sep-20	0.2	1.1	-	-	-	1.3
	Total		6.1	1.9	-	-	-	8.0
Cash handouts to welfare recipients	1. Welfare payments	30-Mar-2020 onwards	4.8	0.0	-	-	-	4.8
Regional assistance	1. Assistance to affected regions	To be determined	0.1	0.9	-	-	-	1.0
TOTAL			10.9	6.6	5.4	-1.6	-3.7	17.6
(% of 2018-2019 GDP)			0.6	0.3	0.3	-0.1	-0.2	0.9

Source: Department of the Treasury, National Australia Bank

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