

The Second Economic Support Package

Economic news

- The Federal Government has compiled a second, \$66.1 billion package of measures “to cushion the economic impact of the coronavirus and help build a bridge to recovery.” The details of the consolidated package first and second packages is at:

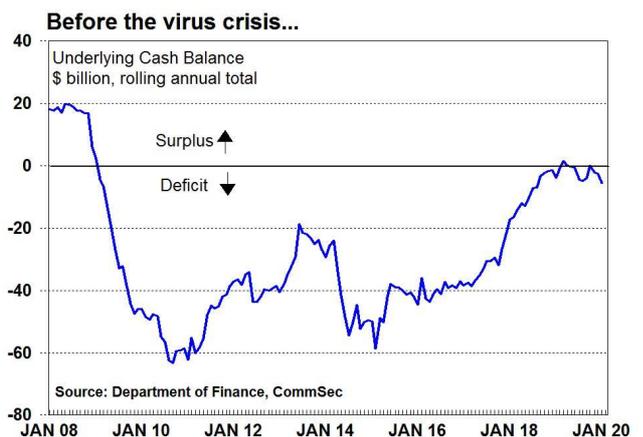
<https://treasury.gov.au/coronavirus>

- The economic packages to date total \$189 billion or 9.7 per cent of gross domestic product.

The stimulus package will provide support for households and business and thus for the overall economy.

The Big Picture

- The Federal Government has released a second package of measures to support workers and the economy in response to the COVID-19 coronavirus crisis (the virus crisis). The first package of measures costing \$17.6 billion was released on March 12.
- Details of the first and second packages package can be found here: <https://treasury.gov.au/coronavirus>
- The Treasurer’s statement on the second package is here: <https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/media-releases/supporting-australian-workers-and-business>
- Not including measures announced by State and Territory governments, the Federal government says that \$189 billion (9.7 per cent of gross domestic product) is being injected into the economy. As well as the first and second packages, the Reserve Bank measures are estimated at \$90 billion together with \$15 billion from the Government to deliver easier access to finance.
- These measures are on top of the healthcare response to COVID-19 (\$2.4bn), the \$444.6 million temporary measures to support the aged care sector and assistance for bushfire region around \$2 billion.
- Commonwealth support measures are estimated at \$25.8 billion in 2019/20; \$36.3 billion in 2020/21; \$6 billion in 2021/22; \$1.1 billion in 2021/23; and \$3.2 billion in 2022/23.
- The first package was a good first step. The latest package is indeed a good second step, helping casual works and sole traders. It probably won’t be the last package required as the virus crisis evolves. Much will depend on the success of measures to restrict movements of people in and out of the country and from region to region. And how long the process takes. The longer the process of containment, the more that households and businesses will be under financial stress.
- It will be important for all Australians to ensure that they receive the payments that they are entitled to, to ensure that they get through the crisis.



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The measures

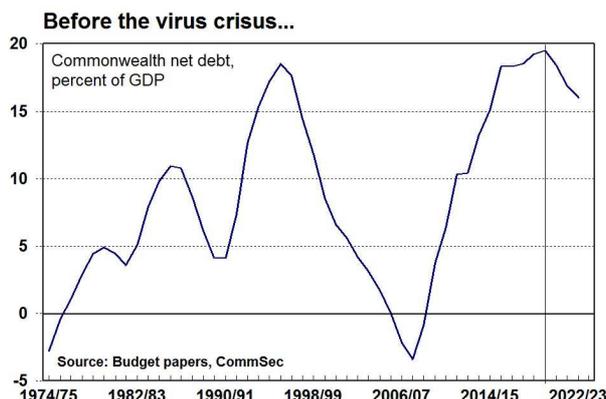
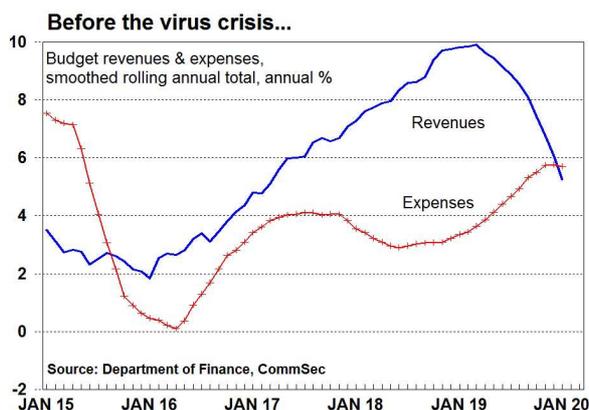
- There are three components of the second package:
 - Support for households including casuals, sole-traders, retirees and those on income support
 - Assistance for businesses to keep people in a job
 - Regulatory protection and financial support for businesses to stay in business

Support for workers & households

- **Coronavirus supplement:** The Government is temporarily expanding eligibility to income support payments and establishing a new, time-limited Coronavirus supplement to be paid at a rate of \$550 per fortnight. This will be paid to both existing and new recipients of the JobSeeker Payment, Youth Allowance jobseeker, Parenting Payment, Farm Household Allowance and Special Benefit.
- *"The coronavirus supplement will provide an additional \$550 a fortnight on top of the existing JobSeeker or Newstart payment and will be available for sole traders and casual workers who meet the income test," Mr Frydenberg said.*
- *"This means anyone eligible for the maximum JobSeeker payment will now receive more than \$1100 a fortnight, effectively doubling the JobSeeker allowance."*
- The Coronavirus supplement will be paid for the next 6 months. Eligible income support recipients will receive the full amount of the \$550 Coronavirus supplement on top of their payment each fortnight. (Cost is \$14.1 billion over the forward estimates; that is through to 2023/24)
- **Payments to support households:** In addition to the \$750 stimulus payment announced on March 12, 2020, the Government will provide a further \$750 payment to 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. (Estimated cost is \$4 billion through to 2023/24)
- This second payment will be made automatically from July 13, 2020.
- **Early release of superannuation:** The Government will allow individuals in financial stress as a result of the Coronavirus to access up to \$10,000 of their superannuation in 2019-20 and a further \$10,000 in 2020-21. The Treasurer said the move will put as much as \$27 billion back into the pockets of working Australians, or less than 1 per cent all superannuation assets, (Estimated cost is \$1.2 billion through to 2023/24)
- **Temporarily reduce superannuation minimum drawdown rates:** The Government is 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.
- **Reducing social security deeming rates:** On top of the deeming rate changes made at the time of the first package, the Government is reducing the deeming rates by a further 0.25 percentage points to reflect the latest rate reductions by the Reserve Bank. The change will benefit around 900,000 income support recipients, including Age Pensioners. (Cost is \$876 million through to 2023/24).

Assistance to business to keep people in a job

- **The Boosting Cash Flow for Employers** scheme from the first package has been enhanced. The Government is providing up to \$100,000 to eligible small and medium sized businesses, and not-for-profits (including charities)



that employ people, with a minimum payment of \$20,000. These payments will help businesses' and not-for-profits' cash flow so they can 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 April 28, 2020.
- This measure will benefit around 690,000 businesses employing around 7.8 million people, and around 30,000 not-for-profit (NFP) businesses (including charities). (Cost is \$31.9bn through to 2023/24 including the value of the measure in the first package)

Regulatory protection and financial support for businesses to stay in business

- **Coronavirus Small and Medium-sized enterprises (SME) Guarantee Scheme:** The scheme is designed to assist SME to get access to working capital. Under the Scheme, the Government will guarantee 50 per cent of new loans issued by eligible lenders to SMEs. (The Government will guarantee up to \$20 billion to support \$40 billion in SME loans). Including previous announcements, the Government says *"a total of \$125 billion to support Australians get through the impact of the coronavirus."*
- **Providing temporary relief for financially distressed businesses:** The Government is temporarily increasing the threshold at which creditors can issue a statutory demand on a company and the time companies have to respond to statutory demands they receive. The package also includes temporary relief for directors from any personal liability for trading while insolvent.
- **Support for the aviation industry:** As previously announced, the Government is also providing up to \$715 million *"in support for Australian airlines and airports, which will ensure that our aviation sector receives timely cash flow support through an unprecedented period of disruption to international and domestic air travel."*

What are the implications for investors?

- The speed in the response by all forms of government and the central bank is both laudable and comforting.
- Much will now depend on how quickly the Federal Parliament deals with the legislation in the coming week. This is not the time for petty politics. The measures must be quickly passed so that the dollars can flow. It is a point that the US Congress can emulate.
- Casual workers and sole traders may be unfamiliar with how the social security system works. But they need to make the effort to understand what payments they are eligible for. And any member or group of the community that feels as though they have 'slipped through the cracks' must make their voices known to their members of parliament. Of course the onus is on Members of Parliament to fully represent the interest of their constituents.
- Will Australia avoid recession? It is looking less likely each day. But will the economy bounce back quickly? The economy was fundamentally strong going into the crisis. The good news is that the Federal Government no longer feels the necessity to defend the previously-expected budget surplus. Now the focus is how well and how quickly and responsibly the government responds to the crisis.
- Businesses are being well supported by the Federal Government payments. Also of note are the moves by State and Territory governments to suspend payroll tax payments.
- What more can be done? Every effort must be made to get people tested and cleared. More dollars and resources including the army should be mobilised. That way more and healthy groups (cells) of people and businesses can engage with each other and more of the country can get back to some sense of "normality".
- But for now it is a case of waiting to see how quickly the virus can be contained.

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