

Part 1: Overview

Introduction

2020 has been a year like no other. The COVID-19 pandemic has resulted in the most severe global economic crisis since the Great Depression and Australia's first recession in almost 30 years.

In the 2020-21 Budget, the Government set out its Economic Recovery Plan for Australia to create jobs, rebuild the economy and secure Australia's future. The Government's decisive response to the COVID-19 pandemic has been temporary, targeted and proportionate to the shock.

The Government has provided \$267 billion in direct economic and health support under the Economic Recovery Plan. Of the \$251 billion in direct economic support, over \$175 billion has already flowed to Australian households and businesses. Additional support has been provided automatically through the tax and welfare systems.

The Australian economy is rebounding strongly. Australia's real GDP grew by 3.3 per cent in the September quarter and recent data suggest momentum has continued into the December quarter. The labour market continues to strengthen alongside the recovery in economic activity, with around 80 per cent of the 1.3 million people who lost their job or were stood down on zero hours in April now back at work. Real GDP is forecast to grow by 4½ per cent in 2021, following a fall of 2½ per cent in 2020.

Australia's economic and health outcomes continue to compare favourably to other countries and the Australian economy is forecast to outperform all major advanced economies in 2020.

Nevertheless, certain COVID-19 restrictions remain and there is a long way to go until the economy fully recovers and the unemployment rate is brought down comfortably below 6 per cent. The risk of virus outbreaks will continue to create uncertainty for both households and businesses, and the international outlook remains uncertain.

The underlying cash balance in 2020-21 is now expected to be a deficit of \$197.7 billion (9.9 per cent of GDP), a \$15.9 billion improvement since the 2020-21 Budget, primarily reflecting the faster-than-expected rebound in the economy. The underlying cash balance is expected to improve over the forward estimates to an expected deficit of \$66.0 billion (3.0 per cent of GDP) in 2023-24 and to further improve over the medium term to a projected deficit of \$45.7 billion (1.4 per cent of GDP) in 2030-31. This is broadly consistent with projections at the 2020-21 Budget where a deficit of 1.6 per cent of GDP was projected in 2030-31.

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The 2020-21 MYEFO continues to build upon the Government's Economic Recovery Plan by supporting Australians with additional COVID-19 response measures and delivering a resilient and competitive economy through the five-year JobMaker Plan.

Further COVID-19 response measures in the 2020-21 MYEFO include \$3.2 billion to extend the Coronavirus Supplement, an additional \$1.6 billion to facilitate access to COVID-19 vaccines domestically, as well as \$500 million to extend vaccine support to our region.

The Government continues to guarantee the essential services on which Australians rely, committing a further \$859 million to aged care. Overall, the Government's policies ensure that Australia will emerge from the pandemic with a stronger, more resilient and more productive economy.

Updated Economic Outlook

Australia's economic recovery is well underway. The economy grew strongly in the September quarter and recent data suggest this momentum has continued into the December quarter. This is consistent with Australia's success at controlling the spread of the COVID-19 virus, the staged easing of restrictions and substantial macroeconomic policy support.

Nonetheless, significant risks remain. Although recent domestic outbreaks have been contained, the virus still presents an ongoing threat, generating uncertainty for both households and businesses. There is a long way to go until the economy fully recovers and the unemployment rate is brought down comfortably below 6 per cent.

Globally, the economic recovery is also progressing, but the pace of recovery is uneven. After solid rebounds in the September quarter, the recovery across many advanced economies has lost momentum with renewed outbreaks leading to a curtailment of activity. Following an expected fall of 4 per cent in 2020, global GDP is forecast to increase by $4\frac{3}{4}$ per cent in 2021. Australia's major trading partners are forecast to grow by $5\frac{3}{4}$ per cent in 2021 following a fall of $2\frac{1}{2}$ per cent in 2020.

Australia's real GDP grew by 3.3 per cent in the September quarter, its strongest quarterly growth rate since the March quarter 1976. Growth in the quarter was driven by a strong recovery in household consumption and growth in public spending. Real GDP is forecast to fall by $2\frac{1}{2}$ per cent in 2020, compared with a fall of $3\frac{3}{4}$ per cent forecast in the 2020-21 Budget. Real GDP is then forecast to grow by $4\frac{1}{2}$ per cent in 2021. An ongoing recovery in consumption and investment will be underpinned by continued improvements in confidence and a further easing of social distancing restrictions. There will also be ongoing support from the Government's economic measures, which have helped maintain strong household and business balance sheets.

Labour market conditions have improved substantially alongside the recovery in economic activity. Since May 2020, three-quarters of employment and almost two-thirds of hours lost at the height of the crisis have been recovered. Labour force participation increased to 65.8 per cent in October, close to its pre-COVID-19 level. The unemployment rate, which was 7.0 per cent in October, is forecast to peak at 7½ per cent in the March quarter 2021, below the peak of 8 per cent forecast in the 2020-21 Budget. It is then forecast to fall to 6¼ per cent in the June quarter 2022. Despite this improvement in conditions, the unemployment rate remains elevated and conditions are challenging for particular groups including young people and those in areas and industries most affected by health measures to contain the spread of COVID-19.

Nominal GDP is forecast to rise by 1 per cent in 2020-21 and then grow by 1¼ per cent in 2021-22. The increase in nominal GDP in 2021-22 is not expected to be as strong as the recovery in real GDP growth in that year. This reflects a fall in the terms of trade as iron ore prices are assumed to decline to US\$55 per tonne free-on-board (FOB) by the end of the September quarter 2021. In addition, wage and price growth is expected to be subdued across the forecast period, reflecting spare capacity in the labour market.

There is substantial uncertainty around the global and domestic outlook, as well as the extent of any longer-lasting economic effects from the pandemic. This stems from uncertainty around the spread of the virus, the success of health interventions, and the timing and efficacy of vaccines and other medical treatments. Rising global debt levels may lead to credit tightening and financial instability, particularly if interest rates rise. Domestically, ongoing uncertainty including from an elevated unemployment rate could lead to persistently high household saving and weaker-than-expected consumption growth, while global trade tensions could impact on Australia's export markets and trade flows.

Table 1.1: Major Economic Parameters^(a)

	Outcome		Forecasts		
	2019-20	2020-21	2021-22	2022-23	2023-24
Real GDP	-0.2	3/4	3 1/2	2 1/2	2 3/4
Employment	-4.3	4	1 3/4	1 1/4	1 3/4
Unemployment rate	7.0	7 1/4	6 1/4	5 3/4	5 1/4
Consumer price index	-0.3	2 1/4	1 1/2	1 3/4	2
Wage price index	1.8	1 1/4	1 1/4	2	2 1/4
Nominal GDP	1.7	1	1 1/4	3 3/4	4 3/4

(a) Real GDP and nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter.

Source: ABS Australian National Accounts; National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; and Treasury.

Updated Fiscal Outlook

The COVID-19 pandemic has fundamentally reshaped the economic and fiscal outlook.

In the 2020-21 Budget the Government introduced a revised Economic and Fiscal Strategy, setting out a plan to achieve a strong economic recovery to drive down the unemployment rate, and then to stabilise and reduce debt over time as a share of the economy.

The Government remains focused on its Economic Recovery Plan, as the first phase of its Economic and Fiscal Strategy to support private sector-led growth and job creation, and allowing automatic stabilisers to operate. The Government is continuing to monitor economic conditions and is maintaining flexibility to respond quickly and decisively with further targeted COVID-19 support, if required.

The underlying cash balance is now expected to be a deficit of \$197.7 billion (9.9 per cent of GDP) in 2020-21. The change in the deficit since the 2020-21 Budget has primarily been driven by improvements in the economic outlook, including higher-than-expected receipts and a lower-than-expected number of people receiving the JobKeeper Payment. This has been partly offset by additional policy decisions to support the economic recovery and secure access to vaccines.

The underlying cash balance is expected to improve over the forward estimates to a deficit of \$66.0 billion (3.0 per cent of GDP) in 2023-24 and to further improve over the medium term to a projected deficit of \$45.7 billion (1.4 per cent of GDP) in 2030-31.

The net operating balance is now expected to be a deficit of \$185.2 billion (9.2 per cent of GDP) in 2020-21, improving to an estimated deficit of \$57.1 billion (2.6 per cent of GDP) in 2023-24.

Table 1.2: Budget Aggregates

	Estimates			
	2020-21		2021-22	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Underlying cash balance	-213.7	-197.7	-112.0	-108.5
Per cent of GDP	-11.0	-9.9	-5.6	-5.3
Net operating balance	-197.9	-185.2	-103.4	-98.2
Per cent of GDP	-10.2	-9.2	-5.1	-4.8

	Estimates			
	2022-23		2023-24	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Underlying cash balance	-87.9	-84.4	-66.9	-66.0
Per cent of GDP	-4.2	-4.0	-3.0	-3.0
Net operating balance	-83.5	-81.0	-58.5	-57.1
Per cent of GDP	-4.0	-3.8	-2.7	-2.6

Gross and net debt are expected to be broadly consistent with the estimates published in the 2020-21 Budget. Gross debt is expected to be 42.5 per cent of GDP at 30 June 2021, increasing to 51.5 per cent of GDP at 30 June 2024. Gross debt is then expected to stabilise at around 53 per cent of GDP in the medium term. Net debt is expected to be 34.5 per cent of GDP at 30 June 2021 and peak at 43.0 per cent of GDP at 30 June 2024. Net debt is then expected to fall over the medium term to 38.3 per cent of GDP at 30 June 2031.

The Government's priorities

The 2020-21 MYEFO measures build on the substantial commitments announced in the Economic and Fiscal Update and the 2020-21 Budget as part of the Economic Recovery Plan, while continuing to guarantee essential services to Australians.

The Government's economic response to the COVID-19 pandemic has kept businesses in business and Australians in jobs. The Government's Economic Recovery Plan will rebuild our economy, create jobs and secure Australia's future through \$251 billion in direct economic support, and \$17 billion in COVID-19 health support. Of the \$251 billion in direct economic support, \$175 billion has flowed to Australian households and businesses to date.

COVID-19 health response

The 2020-21 MYEFO provides \$2.3 billion in new COVID-19 health response measures. This brings the Government's total COVID-19 health support since the onset of the pandemic to \$17 billion. This significant ongoing investment has provided critical health care and protected the health of all Australians. The Government has boosted Australia's hospital, primary care and testing capacity and ensured access to essential health services including through telehealth and the free home delivery of essential medicines.

Vaccines

The Government will provide a further \$1.5 billion to support Australia's COVID-19 Vaccine and Treatment Strategy, to maximise the opportunity for eligible Australian residents to receive vaccines once they have been assessed as safe and effective. These additional investments since the 2020-21 Budget include advance purchasing agreements to acquire the Pfizer/BioNTech vaccine and Novavax vaccine, extending the existing purchase agreements with University of Oxford/AstraZeneca, and no longer proceeding with purchases of the University of Queensland/CSL vaccine candidate following issues identified during phase 1 trials.

The Government will also provide \$75 million to support the COVID-19 Vaccination Program, including for tracking and monitoring systems, a national communication campaign, and program administration. The Government will also continue the National COVID-19 Clinical Evidence Taskforce which provides clinical guidelines on appropriate COVID-19 treatments to health professionals.

Support for COVID-19 vaccine access in the Pacific and Southeast Asia

On 31 October 2020, the Government announced an allocation of \$500 million over three years from 2020-21 to support COVID-19 vaccine access for the Pacific and Southeast Asia. This includes \$21 million of funding over two years towards a new, Japanese-sponsored ASEAN Centre for Public Health Emergencies and Emerging Diseases. Funding will also be used to provide safe and effective vaccine doses, deliver technical support and help achieve full immunisation coverage in the Pacific and

Timor-Leste as well as making a significant contribution towards meeting the needs of Southeast Asia.

Quarantine arrangements

The Government is continuing to ensure Australians can return home safely by providing \$102 million to the Northern Territory and Tasmania to expand Australia's capacity to provide quarantine services.

Aged care

The Government has responded to the recommendations of the Royal Commission into Aged Care Quality and Safety's special report on COVID-19 and is continuing to respond to COVID-19 in aged care, investing \$147 million. This includes funding for new items on the Medicare Benefits Schedule to improve access to psychological treatment and allied health services in residential aged care. This builds on the \$1.6 billion provided to date to support care recipients, providers and workers to respond to COVID-19.

COVID-19 economic response

The 2020-21 MYEFO provides further temporary and targeted support to underpin the economic recovery, with an additional \$4.0 billion in COVID-19 economic response measures. This brings the Government's total COVID-19 economic response to \$177 billion, taking into account the impact of the lower-than-expected number of JobKeeper recipients.

Coronavirus Supplement

The Government is providing \$3.2 billion to extend temporary support for JobSeeker Payment and other income support recipients for a further three months, from 1 January to 31 March 2021. For this period, the Coronavirus Supplement will be paid at a rate of \$150 per fortnight.

In addition, expanded eligibility criteria and changes to income testing arrangements will continue to apply for JobSeeker Payment and Youth Allowance (other). The relaxed partner income test for JobSeeker Payment will continue and the Ordinary Waiting Period, Newly Arrived Resident's Waiting Period and Seasonal Work Preclusion Period will continue to be waived.

Aviation update

Aviation is critical to Australia's prosperity. The Government has supported the continuation of key inter-city and regional routes and smaller regional airlines through COVID-19. The Government is extending the Domestic Aviation Network Support Program, which will guarantee major domestic air routes until 28 March 2021. The Government will also pay 50 per cent of domestic air services charges for key operators from January to 31 March 2021.

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HomeBuilder

The Government will continue its support for the residential construction sector by extending the HomeBuilder program to 31 March 2021.

HomeBuilder has assisted the residential construction sector through the pandemic by supporting jobs and maintaining activity throughout the second half of 2020. The extension of HomeBuilder will support the pipeline of construction activity over 2021 and into 2022.

COVID-19 consumer travel support program

The Government will provide \$128 million for a one-off targeted grant program to support travel agents in recognition that many travel agents continue to process refunds for consumers who have cancelled travel at the same time as they manage ongoing uncertainty about international travel due to the impacts of COVID-19.

COVID-19 international support

The Government has entered into two 15-year loan agreements with the Government of Indonesia and the Government of Papua New Guinea (PNG) as part of multilateral efforts to provide financial assistance to both countries as they confront COVID-19 and support the economic stability of our region. The loan agreement with Indonesia was entered into on 12 November 2020 for \$1.5 billion. In the case of PNG the loan agreement was entered into on 23 November and repays a short term US\$300 million loan from Export Finance Australia and provides an additional \$140 million in support.

JobMaker Plan

The Government has provided \$74 billion in support as part of the five-year JobMaker Plan, which continues to create a stronger, resilient and more productive economy.

Infrastructure investment supporting jobs and economic recovery

The Government is delivering on its record 10-year transport infrastructure investment pipeline which was accelerated and expanded to \$110 billion in the 2020-21 Budget to support the economic recovery, creating more jobs, stimulating local economies and providing better and safer services for our communities. Between 1 July and 31 December 2020, more than 100 major projects are expected to have commenced and about 50 major projects are expected to have completed construction.

The Government will provide \$506 million over three years for priority transport infrastructure to support local jobs and the economic recovery. This comprises \$306 million for projects on the Australian Rail Track Corporation network including \$220 million for Stage 3 of the Advanced Train Management System, which will improve safety and productivity on Australia's rail network. \$200 million is also being provided for the Murray Basin Freight Rail Project to better connect primary producers in Victoria with key domestic and export markets.

Strategic Basin Plan update — Beetaloo Basin

The Government is delivering the first of five Strategic Basin Plans as part of Australia's gas-fired recovery. The Government's Strategic Basin Plan for Beetaloo includes funding to accelerate exploration and strengthen collaboration across government and industry to unlock the resource sector's potential to support regional jobs and strengthen Australia's economy.

Guaranteeing essential services

The Government is continuing to provide significant investment in essential services including health and aged care. This includes \$859 million in new funding to the aged care sector, which brings aged care support announced since the 2019-20 MYEFO to \$3.5 billion.

Quality and safety in aged care

To support older Australians who choose to remain in their own homes for longer, the Government is providing \$851 million for 10,000 additional home care packages across all levels, bringing the number of additional home care packages released to almost 50,000 at a value of nearly \$3.3 billion since the Royal Commission into Aged Care Quality and Safety's Interim Report was handed down in late 2019.

Access to affordable new medicines

The Government continues to make new medicines more affordable for Australians by providing \$683 million for new and amended listings on the Pharmaceutical Benefits Scheme (PBS), Repatriation Pharmaceutical Benefits Scheme (RPBS) and the Stoma Appliance Scheme. New and amended listings since the 2020-21 Budget include nusinersen (Spinraza®) for patients with spinal muscular atrophy.

Responding to natural disaster events

The Government has announced major reforms as part of its response to the Royal Commission into National Natural Disaster Arrangements. The reforms aim to enhance and strengthen emergency response and recovery capacity. Increased Commonwealth support for states and territories to prepare for, respond to, and recover from natural disasters includes:

- a new National Resilience, Relief and Recovery Agency
- establishing Climate and Resilience Services Australia to provide enhanced climate and disaster risk information
- passing legislation to provide the Government with the power to declare a national emergency.