

November 17, 2021

**Statement by Ms. Grant, Ms. Johnson, and Mr. Becker on Australia  
Executive Board Meeting  
November 22, 2021**

Australia has not been spared the economic fallout from the COVID-19 pandemic, experiencing the biggest global economic shock since the Great Depression. Australia has managed impressive health outcomes and provided crucial economic lifelines to households and businesses. A fast economic recovery followed the initial COVID-19 outbreaks, with employment and real GDP surpassing their pre-pandemic levels ahead of any other major advanced economy by 2021Q1. While the Delta variant created setbacks, the emergency economic support provided by the Government has underpinned the strong bounce back in spending and employment observed through partial economic indicators. With vaccination rates one of the highest across the world and authorities safely easing restrictions, Australia is well placed to continue to recover and meet any economic challenges that lie ahead.

**Outlook and risks**

**The Australian economy has shown remarkable resilience in the face of the pandemic.** The economy is recovering after the interruption caused by the Delta outbreaks and is showing signs that spending and employment have bounced back strongly as restrictions continue to ease. Headline inflation has picked up, primarily driven by increases in the cost of new dwellings and fuel. Increases in global demand along with difficulties in supply chain adjustments have also impacted prices of certain goods such as furniture and motor vehicles. Underlying inflation also picked up in the September quarter. The RBA expects underlying inflation to remain around 2¼ percent for much of the forecast period, rising slightly towards the end of 2023. Labor market outcomes have surpassed expectations and employment levels more than recovered the losses seen through the pandemic prior to the recent Delta outbreaks. Employment, hours worked and participation fell due to associated lockdowns, but recent data points to a strong recovery as restrictions ease. The outlook for the economy remains positive, with risks around the potential disruption from further COVID-19 outbreaks mitigated through high vaccination rates.

**Australia took early and strong measures to suppress COVID-19 outbreaks.** The Commonwealth, States and Territories imposed various lockdowns, the international border was closed, and strict quarantine rules were put in place. Australia has one of the lowest death rates from COVID-19 as a share of the population in the world. The national vaccination rollout has made considerable progress and Australia has fully vaccinated around 80 percent of the population aged 16 years and older, with almost 90 percent having received one dose. Lockdown restrictions have gradually eased and from 1 November, partial reopening of the international border occurred along with the beginning of phased removal of quarantine requirements for vaccinated travelers. The opening of borders is crucial for the recovery in the tourism and tertiary education industries and will see the return of skilled migrants to fill skill shortages in some industries.

### **COVID response**

**Australia entered the pandemic from a position of economic and fiscal strength, enabling the authorities to respond decisively with unprecedented economic support.** The Government's significant fiscal policy response has been central to Australia's economic performance with immediate temporary, targeted assistance to households and businesses providing crucial lifelines to support the economy. The economic recovery has also been supported by a number of complementary policy actions taken by the RBA. The Government, RBA, and Australia's financial regulators are working collaboratively to ensure a coordinated response to the pandemic and are revising policies to respond to the economic environment and transition economic support as the recovery takes hold.

**Existing budget and fiscal flexibility has been utilized to respond to the evolving impacts of the pandemic.** The Government revised its fiscal strategy to reflect the changed economic circumstances stemming from the COVID-19 recession and the need for additional support for the economy throughout the pandemic. Once Australia secures the recovery and unemployment is back to its pre-crisis levels or lower, the focus will shift to strengthening Australia's fiscal position and rebuilding fiscal buffers by stabilizing and reducing debt over time through growing the economy and ongoing fiscal discipline. This shift will be determined by a comprehensive assessment of the economy and labor market, and not the unemployment rate alone. Importantly, Australia remains just one of nine nations to hold a AAA credit rating from the three leading ratings agencies.

**Australia's response to COVID-19 has been swift and, while some fiscal support measures have been phased out, measures remain in place to support a strong private sector led economic recovery.** Many of the fiscal measures made use of existing programs and strong automatic stabilizers. The introduction of the landmark JobKeeper Payment – a wage subsidy program which successfully supported around four million Australians in their job – was a critical element of the Government's response. As the economy has strengthened, the JobKeeper Payment has been phased out. Other notable support measures provided in response to the initial shock included cash flow boost payments for employers, insolvency relief for businesses, loss carry-backs and an increase in the instant asset write-off threshold.

For individuals and households, the Government provided one-off stimulus payments to certain welfare recipients, instituted a temporary Coronavirus Supplement for certain welfare recipients and brought forward planned and added additional personal income tax relief. Following the recent COVID-19 outbreaks, the Commonwealth, State and Territory governments implemented new support measures, including the COVID-19 Disaster Payment.

**Monetary policy remains highly accommodative. The RBA is committed to not raising interest rates until actual inflation is sustainably within the 2 to 3 percent target range.**

The authorities currently do not see this objective being met until 2024 under the central forecast. The RBA has provided monetary policy support by cutting interest rates, purchasing government bonds, targeting the yield on the 3-year government bond, and a term-funding facility for the banking system. Reflecting the improved economic conditions, the RBA recently scaled back the pace of bond purchases and discontinued the yield target for the April 2024 bond. The RBA is committed to open, transparent and accountable communication. The authorities are open to considering a review of the monetary policy framework.

**The financial system has been resilient to the effects of the pandemic.** Banks have had ample access to funding. They were quick to provide loan repayment deferrals for customers, and a sharp rise in non-performing loans has not eventuated. Capital buffers are sound and bank profitability recovered more quickly than expected. There are risks from the housing sector, but these risks continue to be closely monitored by the authorities. Recently, the prudential regulator increased the interest rate serviceability buffer on home loans by 50 basis points from 2.5 percent to 3.0 percent to address risks in home lending at a time of historically low interest rates. The authorities supervise the financial system under an umbrella of cooperation between the Treasury, RBA, prudential regulator, and securities regulator. This framework has served Australia well throughout the pandemic. The authorities are comfortable with the flexibility and success of the current framework. Further, the prudential regulator is revising the bank capital framework to make it more flexible, risk-sensitive, and competition-enhancing, new guidance on cyber risks has been introduced, and guidance on managing the financial risks of climate change is expected to be released before the end of 2021. Efforts have also been taken to strengthen the AML/CFT regime, and regulation of designated non-financial businesses and professions will be considered as part of a longer-term strategy.

**Looking ahead: beyond the pandemic**

**The Australian authorities are focused on putting incentives in place for a strong, sustainable and inclusive private sector led economic recovery.** The Government's economic plan will see Australia through the pandemic, secure economic recovery and job creation, and set Australia up to deal with future challenges. The Government is continuing to provide targeted support to Australian households and businesses to ensure they emerge stronger on the other side of the pandemic. The Government is also building skills for the

future that will also encourage greater participation in the labor market, while also taking comprehensive action to guarantee the provision of high-quality and sustainable services to support the most vulnerable. The authorities agree with staff that adequate provision of social housing remains important, noting that the States and Territories have policy responsibility for the provision of social housing.

**The Government is prioritizing growing a bigger, highly skilled workforce with a suite of measures to train and reskill the workforce to drive the recovery and reduce unemployment.** The JobTrainer Fund is targeted to youth, school leavers and the unemployed and enables them access to free or low-fee courses equipping them for work in areas of shortages, including aged care, IT and childcare. This is in addition to the jobactive Program, the Government's employment service to help people into work and help employers find the right staff for their business. The jobactive Program includes wage subsidies for disadvantaged groups like the long-term unemployed. The Boosting Apprenticeship Commencements wage subsidy supports businesses to take on new apprentices or trainees, which will help build a pipeline of skilled workers to support a sustained economic recovery. The authorities are closely monitoring these programs and stand ready to adjust them if required.

**Australia is committed to the Paris Agreement with a target to achieve net zero emissions by 2050 and Australia is on track to exceed its 2030 emissions reduction target.** Australia's recently released Long-Term Emissions Reduction Plan outlines how Australia will harness low emissions technologies to meet its net zero commitments and continue to supply reliable and clean energy. The Plan is backed by Government investment of \$20 billion to support the commercialization of low emissions technologies including clean hydrogen, energy storage, carbon capture and storage, ultra-low-cost solar, low carbon materials, and soil carbon. Adaptation is also critical. The recently released National Climate Resilience and Adaptation Strategy positions Australia to anticipate, manage and adapt to climate change. It delivers a national framework for collaboration with the private sector in identifying projects that will meet the needs of the future, improved climate information services, and practical initiatives to protect Australia's environment and economy. This includes national assessments of climate impacts and adaptation progress, and independent monitoring and assessment of progress over time.

**Boosting productivity through tax reforms and targeted spending and investment to create a dynamic and competitive economy is at the heart of Australia's economic plan.** While several advanced economies have recently announced increases in taxes, Australia continues to announce and implement reforms to the tax system to reward aspiration, boost labor supply, increase investment and drive productivity. Reforms to enhance the R&D tax incentive along with the introduction of a patent box will encourage domestic commercialization of innovation. The Personal Income Tax Plan will implement the largest change to the personal tax system in over two decades ensuring that 95 percent of Australians face a marginal tax rate of no more than 30 percent. Small businesses now face a tax rate of

25 percent (down from 30 percent in 2015-16) and the unprecedented business investment incentives remain in place to the end of 2022-23 further boosting investment and creating jobs. Australia remains committed to building the infrastructure the economy needs and has announced additional infrastructure investments across a 10-year pipeline. The Government will also invest in a Digital Economy Strategy to build on existing investments and harness the opportunities from the pandemic. A modern digital economy will help create more jobs, improve productivity, and enhance the day-to-day experiences of Australians. The authorities also continue to advance their deregulation agenda and remain committed to an open, rules-based international trade system and a transparent FDI regime.