

Briefing Note for Economics and Governance Committee

Inquiry into the Queensland Government's economic response to COVID-19.

Queensland Treasury and Department of State Development, Manufacturing, Infrastructure and Planning

Introduction

1. The Queensland Government has acted swiftly and decisively in response to the COVID-19 health crisis and the subsequent substantial economic challenges resulting from the global and national response to the crisis.
2. Recognising the magnitude of the crisis and its potential impact on the health and prosperity of Queenslanders, the Queensland Government led jurisdictions in calling for the Commonwealth to take immediate action to protect Australia's borders and provide substantial stimulus to assist businesses, workers and households, including seeking activation of Natural Disaster Relief Recovery Arrangements.
3. The Queensland Government's response was rapid. Following declaration of a Queensland wide public health emergency on 29 January 2020, the Economic Functional Recovery Group (EFRG) was stood up in February 2020 to coordinate the immediate economic response, with the Queensland Government's first economic support package released on 18 February 2020.
4. As the public health emergency evolved and the potential severity of the impact on the Queensland economy became apparent, the Queensland Government responded with an unprecedented package of support measures amounting to more than \$5 billion. This has included more than \$3.4 billion in measures to support impacted businesses, workers, households and communities, as well as a \$500 million concessional loan facility, and \$1.2 billion for improved health services.
5. The Queensland Government's substantial package of support measures has focused on avoiding wide-spread business closures, minimising job losses, and reducing the risk of localised downturns. This approach is consistent with that adopted in other jurisdictions, including the Commonwealth, as well as actions undertaken internationally to minimise the economic impacts of the crisis.
6. New Weekly Payroll data released by the ABS on 5 May 2020 showed the number of employee jobs in Queensland fell 6.5% over the five weeks to the week ending 18 April. Nationally, jobs fell 7.5% over the same period, with jobs in Victoria falling 8.6%, New South Wales 7.4% and South Australia 7.8%.

Key points

Current economic outlook and challenges for the Queensland economy posed by COVID-19

7. Prior to COVID-19, Queensland's economy and labour market were in a strong position, with employment growing solidly and the unemployment rate falling.

8. The latest Queensland State Accounts show that trend gross state product (GSP) rose 0.5% in September quarter 2019. This was the 20th consecutive quarter of economic growth in Queensland and resulted in annual GSP growth of 2.0%, stronger than the 1.7% growth recorded in the rest of Australia.
9. The value of the State's overseas merchandise exports reached record levels in 2019, totalling \$84.2 billion, up 2.5% on the previous year and up 91% compared with 2014.
10. Over the year to February 2020, Queensland's seasonally adjusted nominal retail trade rose 4.8%, easily outstripping national growth of only 1.8%.
11. The latest ABS data, released on 16 April, shows trend employment in Queensland increased by 57,800 over the year to March 2020, including 13,900 full-time jobs, bringing the total jobs created in Queensland since January 2015 to 250,100.
12. The trend unemployment rate fell to 5.7% in March, the lowest trend unemployment rate for Queensland since May 2012.
13. However, international, national and Queensland economic conditions have been severely impacted by the emergence of COVID-19, with global economic conditions continuing to evolve in the context of the crisis.
14. In its April World Economic Outlook report, the International Monetary Fund (IMF) substantially downgraded its global economic growth forecasts. The IMF's outlook for 2020 was downgraded from forecast growth of 3.3% in its January 2020 report to a decline of 3.0%, an unprecedented downward revision to global growth of 6.3% points over a short period of time.
15. The IMF forecast the Australian economy to contract by 6.7% in 2020, before rebounding by 6.1% in 2021. Taken together, this implies Australia's GDP in 2021 will be 1% smaller than it was in 2019.
16. In terms of the Australian economy, the IMF's view was mirrored more recently by the RBA Governor, Phillip Lowe, where he indicated the RBA expects:
 - National output to fall by around 10% over the first half of 2020, with most of this decline taking place in the June quarter
 - The national unemployment rate to be around 10% by June
 - GDP to fall around 6% in 2020 before rebounding to around 6% to 7% growth in 2021.
17. In response to the health crisis, the introduction of national social distancing and containment measures have severely and immediately impacted thousands of Queensland businesses and many thousands of Queensland jobs.
18. In particular, businesses across a range of key sectors of the Queensland economy were required to close temporarily or to restrict operations under national guidelines related to non-essential businesses.
19. Initial Queensland Treasury estimates indicate that around 20,000 Queensland businesses are likely to have been directly impacted by the forced closures, with businesses directly and indirectly impacted by these closures employing around 130,000 Queenslanders.

20. As a result, broadly consistent with the outlook forecast by the IMF and RBA, Queensland Treasury's preliminary view is that the Queensland economy is also likely to contract materially in 2020, due to the widespread impacts on economic activity of the forced business closures and social distancing restrictions. However, the State's economic performance is expected to strengthen in 2021.

Queensland Government's economic response to COVID-19, including overall strategies and specific economic measures (and the timing of those measures)

21. The Queensland Government has responded to the COVID-19 crisis with an unprecedented package of support measures amounting to more than \$5 billion. This includes more than \$3.4 billion in measures to directly support businesses, workers, households and communities, a \$500 million concessional loan facility, and \$1.2 billion for improved health services.
22. Importantly, Queensland was one of the first Australian jurisdictions to respond to the growing COVID-19 crisis, announcing the \$27.4 million Immediate Industry Recovery Package on 18 February 2020. The initial package was aimed at supporting the sectors impacted by the initial border restrictions on Chinese visitors, namely Queensland's tourism, agriculture, fishing and international education sectors.
23. The package included: targeted financial support and advice; marketing and media activities promoting Queensland locally and abroad; and provision of counselling and support to businesses and students. Key package initiatives included:
- \$7 million in international tourism promotion
 - \$4.8 million targeted support for the Tropical Far North and Gold Coast regions
 - Waiving fees for fishers, liquor licences, and rock lobster and coral trout quotas
 - Deferring tourism lease payments
 - Rebates for marina and jetty fees.
24. As the breadth of the COVID-19 crisis has expanded globally and the public health measures needed to limit the spread of the virus have become more apparent, the Queensland Government has taken timely and decisive steps to ensure the Queensland economy can better weather the course of the immediate crisis and sustain it for recovery. This included the announcement of an unprecedented \$3 billion stimulus package on 24 March 2020.
25. This package of support measures focussed on avoiding wide-spread business closures, minimising job losses, and reducing the risk of localised downturns – an approach consistent with that adopted in other jurisdictions, including the Commonwealth, as well as actions undertaken internationally to minimise the economic impacts of the crisis.
26. The package provided support to impacted businesses, workers, households and communities across the State, as well as a range of targeted industry support measures to protect Queensland businesses and jobs (see Table 1 for a summary of key measures announced since 24 March 2020).

Table 1: Summary of key Queensland Government measures announced from 24 March 2020

Recipients	Measures
Support for industry and employers	<ul style="list-style-type: none"> • Up to \$950 million for payroll tax relief for businesses to enable deferral of payments until the end of 2020; a payroll tax holiday for three months for small to mid-size enterprises (SMEs); and two months for larger businesses. • \$500 million jobs support loans – low interest loans up to \$250,000 to help businesses retain employees and maintain operations, with the first year interest free. • \$1 billion Industry Support Package focused on providing support to large and regionally significant businesses through this period to ensure they will be able to scale up and service the community when economic activity improves. The Industry Support package will be focused on businesses which can demonstrate that they: <ul style="list-style-type: none"> • have a significant operational presence in the State • employ Queenslanders on a large scale and committed to retain core staff and skills to support growth and jobs in the future • demonstrate regional significance; and • are positioned to support Queensland’s economic recovery. • Relief for businesses renting government premises. • \$500 rebate on electricity bills for all Queensland SMEs that consume less than 100,000 kilowatt hours. • Liquor licensing fees waived for business impacted by enforced safety industry shutdowns.
Support for workers	<ul style="list-style-type: none"> • Up to \$500 million to assist workers and businesses who lose their job or income. • Creation of the Jobs Finder online portal which enables jobseekers to register their details, location and skills to be matched with suitable job opportunities by professional recruitment agencies.
Support for households	<ul style="list-style-type: none"> • \$300 million in cost-of-living relief for households, including a \$200 credit for all 2.1 million households to offset the cost of water and electricity. • COVID-19 Rental Grant Program to provide a one-off payment of up to four weeks rent, with a maximum payment of \$2000, to renters experiencing financial hardship who have been unable to access other financial assistance. • Online Student Hub to support international students stranded in Queensland as a result of COVID-19.
Industry specific support	<ul style="list-style-type: none"> • \$33.8 million to waive land rent for farms, tourism operators, and community and sporting clubs for six months. • \$54.5 million to support regional air, bus and ferry operators to maintain services. • \$2.3 million to support port businesses across Far North Queensland to deal with the impact of COVID-19, which will provide rental relief for the region’s tourism, resource and seafood sectors.

	<ul style="list-style-type: none"> • \$4.5 million in funding for two Queensland charities hit hard by COVID-19 to help them continue vital work. • Offered \$200 million for a national support package for Virgin Australia: <ul style="list-style-type: none"> ○ The Government called on the Federal Government and other states and territories to contribute to a national support package. ○ Support would be conditional on debt restructuring, support from shareholders and bond holders, headquarters remaining in Brisbane, and ongoing regional flights. • Appointment of approximately 100 Agriculture Coordination Officers to support producers, the agriculture industry and local governments in their response to COVID-19. • \$17 million in support for community kindergartens struggling with falling enrolments. • \$50 million of extra tax relief for pubs and clubs: <ul style="list-style-type: none"> ○ 1,100 pubs and clubs to receive a three-month deferral on gaming machine taxes. ○ 50 licensees who have already paid their gaming machine taxes for March to receive refunds. • \$10.5 million in funding relief for small-to-medium arts organisations. • \$3.67 million in fee relief for operators at the Cairns Marina.
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27. The response by businesses to Queensland Government’s key support measures has been substantial. As at 30 April:

- The Queensland Rural and Industry Development Authority (QRIDA) had approved 2,423 applications and \$365.2 million in job support loans, with \$221.5 million in loans already paid
- 8,398 deferrals of payroll tax had been approved
- 12,057 payroll tax refunds had been approved and 10,097 payroll tax refunds had been processed.

28. To further complement and enhance the efforts of the support package, the following key activities have also been undertaken by the Queensland Government to keep Queenslanders engaged with the economy:

- Supply matching: Provision of supply matching services to assist Queensland manufacturers and businesses to connect with each other to solve supply issues, including sourcing of difficult-to-obtain vital materials and supplies.
- Provision of Personal Protective Equipment (PPE): A Department of State Development, Manufacturing, Infrastructure and Planning (DSDMIP) led team was established to respond to the critical PPE needs of Queensland Health and the Queensland Government more broadly, ensuring the continued supply of key PPE such as disposable masks, face shields, and hand sanitizer. The team has assisted Queensland manufacturers pivoting operations to meet the State’s PPE requirements and, where possible, national and non-government shortages.

- On 27 April 2020, it was announced the Dalby Bio-Refinery was to reopen to manufacture vital stocks of industrial grade ethanol to be used in hand sanitiser, hand wash and surface disinfectant products during the fight against COVID-19, re-employing 40 staff who were placed on leave when the business temporarily shut down on 24 February 2020.
- The Essential Goods and Supply Committee (EGSC) was formed as a sub-group of the EFRG to facilitate the supply of food and other essential goods during the COVID-19 public health emergency. The ESSC provides a mechanism to directly advise industry on critical issues related to COVID-19 responses including border controls and specific workplace health and safety controls such as in the food manufacturing sector. The EGSC has also worked directly with distributors to ensure the ongoing supply of food and essential goods to remote and discrete Indigenous communities.
- Planning amendments: Urgent amendments to Queensland's planning legislation are now in effect to address concerns raised by a range of stakeholders, including local government and industry, in response to the COVID-19. The new provisions provide for business continuity and supply by removing planning constraints which could be limiting the operation and delivery of essential services.

The amendments also ensure that development assessment, plan-making, and other statutory timeframes under the *Planning Act 2016* and *Economic Development Act 2012* can be managed, and that the State and local governments can continue to make decisions and ensure statutory timeframes can be met even if workforces are affected or reduced.

- A Queensland Small Business Commissioner is to be appointed and will take an active role in helping small businesses affected by the COVID-19 pandemic, providing information and support including retail leasing advice and mediation.

Interaction of the Queensland Government's economic response to COVID-19 with that of the Federal Government

29. The substantial measures implemented by the Queensland Government to support Queensland businesses, households and communities complement and/or build upon the key support measures implemented across other levels of government, particularly the Australian Government.
30. Where Commonwealth led initiatives focus largely on providing broader financial and income support to businesses and households, Queensland Government initiatives have complemented these by reducing a range of costs to business through relief from payroll tax and other fees, as well as providing information, mentoring and advice to support businesses in making sound management decisions.
31. The Queensland Government will continue to leverage opportunities to complement and extend the Australian Government response as the COVID-19 crisis continues to unfold in order to support ongoing economic activity and recovery of the Queensland economy in the short, medium and longer term.

32. The Queensland Government is working closely with the Australian Government and other states and territories to support the economic response and recovery planning efforts. In particular:

- The National Coordination Mechanism (NCM) was activated on 6 March 2020 to support a consistent approach across jurisdictions. Key agencies have been meeting to identify any issues that need to be addressed and assess the capabilities available to meet those challenges. The NCM has considered a range of sectoral and cross-cutting economic issues, including matters related to agriculture, employment services, small business, and banking and finance.
- On 13 March 2020, the National Cabinet was established comprising the Prime Minister, Premiers and Chief Ministers. It meets at least weekly and is now a critical governing mechanism, bringing together information and intelligence sharing, and coordinating both the public health and economic response across Australia.
- Further cooperation and coordination with the Commonwealth can be evidenced in joint funding for the development of a COVID-19 vaccine and pairing increases in Queensland's telehealth system capacity with increased Commonwealth funding for Medicare subsidised telehealth services.

33. The interventions and initiatives developed by the Queensland Government are broadly consistent with other state and territories governments and include payroll tax relief, waived fees, electricity bill rebates, financial support counselling, business mentoring and job support packages.

Key sectors of the Queensland economy affected by the crisis, and key challenges and opportunities associated with those impacts

34. The COVID-19 outbreak is expected to have a significant impact on a number of market and non-market sectors across the Queensland economy.

35. Key sectors that have been directly and substantially impacted include: agriculture, forestry and fishing; construction; mining; manufacturing; tourism; retail trade; accommodation and food services; transport, postal and warehousing; arts and recreation services; and rental, hiring and real estate services.

36. In particular, businesses across a range of key sectors of the Queensland economy were recently required to close temporarily or to restrict operations under national guidelines related to non-essential businesses.

37. Initial Queensland Treasury estimates indicate that around 20,000 Queensland businesses are likely to have been directly impacted by the forced closures, with businesses directly and indirectly impacted by these closures employing around 130,000 Queenslanders.

38. Trade and Investment Queensland has also reported substantial impacts on many Queensland businesses that trade into markets affected by international border closures.

39. Given the wide-ranging direct and indirect impacts of the crisis, substantial impacts are expected in terms of labour demand and employment opportunities across a broad range of sectors.

40. New Weekly Payroll data released by ABS on 5 May 2020 showed the number of employee jobs in Queensland fell 6.5% over the five weeks to the week ending 18 April.
41. Industries most impacted in Queensland were accommodation and food services (down 30.1%), followed by arts and recreation services (down 26.7%).
42. Nationally, jobs fell 7.5% over the same period, with jobs in Victoria falling 8.6%, New South Wales 7.4% and South Australia 7.8%.
43. Given the changes in consumer demand and preferences resulting from the crisis, increased demand for certain goods and services is expected to support employment opportunities in some sectors, including in relation to health, personal services, information technology, food retail, cleaning and hygiene related occupations, and freight logistics.
44. To gain initial insight into the scale of impacts on Queensland businesses, a Department of Employment, Small Business and Training (DESBT) survey of businesses indicated that, of the 4,429 businesses surveyed, 4,128 identified as having been directly impacted.
45. Queensland Government agencies, through consultation with industry stakeholders and business owners within their relevant portfolio areas, have identified a broad range of direct and indirect impacts on sectors of the Queensland economy, including, but not limited to the challenges outlined below.
 - Trade exposed industries such as agriculture, forestry and fishing, mining, international education, and tourism continue to experience a diverse range of impacts such as reduced demand for products and services and associated price impacts.
 - Many parts of the services sector have been particularly impacted, for example federal Government restrictions on non-essential services have forced many store closures, with small retailers without online channels the most impacted. Restrictions on auctions and inspections are also reported as impacting on demand for real estate services. Significant reductions in business activities are also reported across the performing and visual arts sectors due to venue closures.
 - Social distancing measures are impacting industries such as passenger services in the transport sector, while travel restrictions have impacted vehicle rental services.

Management of risks for the budget and financial sustainability

46. The Queensland Government entered this crisis in a strong position with consecutive State budgets delivering operating surpluses and lower debt, positioning the Government well for a swift and strong response.
47. In previous budgets, the Government had achieved debt reductions both as a proportion of revenue and in absolute terms.
48. The 2019-20 MYFER demonstrated the Queensland Government's commitment to sound fiscal management, with the operating position forecast to improve strongly across the forward estimates. Prior to the crisis, the State was on track to deliver an operating surplus in 2019-20.

49. Since the 2019-20 MYFER the Coronavirus COVID-19 has emerged as a significant economic and fiscal challenge.

Expenditure

50. As outlined above in detail, as the public health emergency evolved and the severity of the impact on the Queensland economy emerged, the Queensland Government responded with an unprecedented package of support measures amounting to more than \$5 billion.

51. This has included more than \$3.4 billion in measures to support impacted businesses, workers, households and communities, as well as a \$500 million concessional loan facility, and \$1.2 billion for improved health services.

Revenue

52. Significant reductions in revenues are expected from the downturn in economic activity, as well as the impact of State Government policy announcements. The total impact on revenues will largely depend on the degree and length of the economic downturn, and revenue forecasts will require ongoing review as the economic conditions evolve.

53. A range of key revenues are expected to be impacted by the reduced global, national and domestic economic activity, including:

- GST revenue is expected to be significantly lower, with business and household restrictions impacting the level and composition of spending, including greater consumption of non-taxable items.
- Tax revenue will be impacted by a slowdown in activity and transactions across a range of sectors.
- Royalties will be negatively impacted by the global downturn which is reducing demand for, and prices of, key commodities. However, the lower exchange rate has cushioned some of this downside risk, while major commodity producers have moved quickly to minimise the impact of COVID-19 on their operations.

54. The substantial Queensland Government support for businesses through tax and fee holidays, exemptions or deferrals will also impact on revenue collections.

Savings Initiatives

55. In the 2019-20 Budget, the government established a Service Priority Review Office (SPRO) in Queensland Treasury to drive better budget outcomes to ensure Queenslanders continue to receive the best possible services and infrastructure.

56. SPRO was established to support the realisation of efficiencies through measures to improve service delivery, and drive efficiency in government services and the operation of government programs.

57. Cost control continues to be a priority for the Government. During the current crisis, opportunities to support the fiscal position are being investigated, such as where funding may be redirected to areas of greater priority. This also has the benefit of mitigating borrowing requirements.

58. Savings are being targeted to support the funding of measures and to ensure the budget impact of the economic downturn is managed in a sustainable way. This process aims to identify savings that are achievable and would have minimal impact on the economic recovery and the State's ability to provide essential services. The Deputy Premier has provided examples such as travel expenses and the use of consultants, both of which have been reduced as the pandemic has interrupted business as usual.
59. The Government has announced a wage freeze across all government employees, which is expected to save around \$500 million in 2020-21.

Borrowings and liquidity

60. Some level of additional borrowing will be necessary to fund support packages and manage the declines in revenue despite the realisation of savings.
61. While additional borrowings may be necessary, the Government's interest expense has declined over successive budgets. From its peak in 2013-14 of 4.7%, interest expense as a proportion of revenue was projected to be around 3% across the forward estimates at MYFER - demonstrating the sustainability of the State's financial position.
62. New borrowings are being undertaken at historically low interest rates. The interest rate on 10-year QTC issuance is currently around 1.5%.
63. QTC has also been able to issue bonds with long maturities, with strong issuance results for bonds that mature in 2040 and 2041.
64. QTC and Treasury are working closely together to monitor and actively manage liquidity, in recognition of the COVID-19 impacts on revenue and expenses in the near term.
65. At 30 March 2020, key liquidity measures show that QTC is in a strong position. QTC has sufficient liquidity to meet all existing debt maturities through the next financial year, including the maturing June 2021 benchmark bond.
66. Moody's released an updated credit opinion on 22 April 2020 which considered the potential impact of the crisis on Queensland's budget and debt position and the policy response to the crisis up to this point. This confirmed Queensland's Aa1 rating and the outlook remained stable.
67. In Moody's view, while the impact of COVID-19 will exacerbate budget pressures and increase state debt, they consider the deterioration of fiscal aggregates to be temporary and the state's debt level to remain manageable.

Other issues important to the economic recovery of the state and particular sectors of the economy.

Coordinating the State's ongoing economic response

68. The Queensland Government is identifying and assessing the economic impacts – by sector and by region – of COVID-19. Factored into Queensland Government's response will be a recognition of, and plans for, structural shifts in the economy, labour supply (including regional and demographic differences) and skills.

69. Queensland's existing disaster management arrangements provide an established network of regional and industry stakeholders and harness a ready-made, collaborative approach to recovery efforts.
70. This model has been used to develop and deliver responses to disaster declarations throughout the state and taps into a broad membership including police and security services, local government, SMEs and local business, large business, industry associations and NGOs.
71. Queensland's State Disaster Management Plan supports five Functional Recovery Groups to coordinate delivery of recovery efforts.
72. On 6 February 2020, the Economic Functional Recovery Group (EFRG) was stood up to coordinate responses to economic impacts caused by the COVID-19 public health emergency and has played a key role in guiding the development of responses.
73. In response to the need to ensure the continued supply of essential goods, the Essential Goods Supply Committee (EGSC), a sub-group of the EFRG, was established to advise the Queensland Government on the immediate and longer-term response needs arising from impacts of the COVID-19 pandemic on the supply of essential goods, and provide a forum to fast track solutions to identified issues or opportunities.
74. The EGSC comprises senior government and industry representatives from retail, manufacturing, essential goods and services, and transport and logistics. It has been addressing critical issues such as border controls, keeping workplaces healthy and safe, and managing food and other supply chain issues.

Planning for the State's economic recovery

75. Queensland's success in flattening the curve allows planning to commence for the State's recovery from the COVID-19 pandemic. Recovery planning needs to occur in concert with public health efforts to balance suppression of the spread of the virus with an appropriate easing of social distancing restrictions.
76. Agility and coordinated efforts will be key to economic recovery and to respond to any further waves of infection, particularly in an environment where global growth remains weak and private investment is likely to be low.
77. Consistent with existing disaster management frameworks, a State Recovery Plan (SRP) will guide the economic and social recovery of Queensland from the impacts of COVID-19 over the short, medium and long term, securing the future of the state and its people in a changed world.
78. However, in recognition of the scale of economic impact and recovery required from COVID-19, economic recovery processes within the overall state recovery approach will be varied.
79. The Economic Functional Recovery Group (EFRG) has been refocused and reformed to respond to the scale of recovery required.
80. The EFRG now encompasses the Directors-General (DGs) of Queensland's economic agencies, and the Chief Executive Officers (CEOs) of QRA, Trade and Investment Queensland (TIQ) and Local Government Association of Queensland (LGAQ).

81. EFRG's economic recovery planning will be underpinned by a work program managed by nominated Senior Officers from the same agencies as represented on the EFRG.
82. The EFRG will champion economic recovery across key industries and sectors including - transport, agriculture, international education, tourism and events, mines and energy, trade and investment, environment, small business, supply and logistics, and manufacturing.
83. Additional focus will be applied to cross cutting elements such as infrastructure through the Infrastructure Industry Steering Committee, and skills and innovation in recognition of the transformative nature of recovery required.
84. The Queensland Government continues to work with industry and businesses to identify the impacts and range of responses required to ensure the Queensland economy manages the challenges and opportunities now, and in the months and years ahead.