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Submission on the Queensland Government's economic response to COVID-19

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Summary

The economic fallout from the coronavirus crisis has been sharp and swift. Social distancing rules forced businesses across a range of sectors to close their doors virtually overnight. Many Australians were thrown out of work in a matter of weeks, and the job and income losses combined with significant uncertainty have hurt demand across the economy.

Federal and state governments have responded to these challenges with announcements of more than $160 billion of extra spending to support the economy and incomes during the shutdown. The Queensland Government's fiscal response was one of the largest state responses, as a share of the state economy.

But as the economy gradually re-opens, new economic challenges will emerge. The risk of renewed outbreaks means a smooth re-opening of the economy is far from assured. A globally synchronised recession, continuing consumer and business uncertainty, debt overhang for businesses and households, and a significant hit to population growth will all drag on economic activity in the next year and possibly beyond.

In the short-term, there has been an initial burst of activity as restrictions ease, supported by extensive government payments. But an abrupt withdrawal of government support in a few months' time would magnify the economic risks. If all, or even most, government emergency supports are withdrawn simultaneously in October, it will leave a substantial hole in incomes for households and businesses, and threaten the economic recovery.

Without further stimulus, unemployment will remain too high and the economy will grow more slowly than it could for many years.

Governments should start planning for sizeable fiscal stimulus to support the economy beyond October and into next year. If governments want to get unemployment back down to 5 per cent or below by mid-2022 then they will need to be prepared to collectively spend another $70-to-$90 billion on services, infrastructure, social housing and a more gradual phasing-out of temporary business and household supports.

Both federal and state governments will emerge from this crisis with a lot more debt than pre-pandemic. But they should not risk the economic recovery by moving too fast to consolidate their budget positions. Interest rates are at record lows and the debt position is manageable. Governments can keep debt contained in the medium term by pursuing reforms to boost economic growth and by running tighter budgets after the economy has recovered.

Today Grattan released a major report, *The Recovery Book: what Australian governments should do now*. The book identifies the top priorities for governments over the next six months to aid the recovery from COVID-19, including the economic, budget, health, transport, energy and school education aspects. ***The Recovery Book* is attached**, and we would like to particularly point the committee to Chapters 3-6, which lay out an economic transition plan for Australian governments.

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