



Economic outlook: 17 April 2020

What does the current macroeconomic environment with COVID-19 mean for the innovation community in Australia?

What is the current macroeconomic environment?

Global economic environment

COVID-19 is in 213 countries/territories with 1,996,000 **confirmed cases** and 131,000 confirmed deaths ([WHO, 17 April](#))

- **Restrictions of the movement** of people across borders as well as within countries and cities
- **Continued uncertainty** over the economic fallout resulting in high market volatility and withdrawn investment across all asset classes, large declines in equity prices and government bond yields, and pervasive restrictions across funding markets. **Heavily constrained private sector spending** means worsening financial conditions for the public sector
- **Growth projections** are very uncertain, but the IMF projects the global economy will contract by 3 percentage points (%p) this year and advanced economies will contract by 6.1%p, before expanding

again in 2021 (by 5.8%p for the world, 4.5%p advanced economies) ([IMF, 6 April](#))

- OECD notes that in the medium to longer term, **strategic public investment is necessary**, particularly in areas with large positive externalities for the rest of the economy where under-investment is likely, such as health, education as well as digital and environmental infrastructure ([OECD, 2 March](#))
- Although the outbreak appears to have slowed in China and some were talking of recovery, the **impact on the Chinese economy** is worse than initially expected, with growth expected to fall from 6.1% in 2019 to 1.2% for 2020 ([IMF, 15 April](#)). Given Australia's close ties with China, weak growth and continued travel bans will subdue demand for Australian exports, particularly in higher education and tourism
- Slowing job creation will limit income growth and heightened uncertainty will prolong already very **weak investment and productivity growth**, limiting real wage gains
- The **speed of the health threat and peak** will differ depending on the policy responses in each country and the economic, social, and wellbeing consequences will last much longer than the health threat.

Global assistance measures

- **Emergency financial assistance** is being provided by most governments, with the IMF and World Bank providing further assistance for low-income and emerging markets (for a comprehensive policy response tracker see [IMF, 10 April](#))
- **United States Congress** has issued a US\$2.3 trillion U.S. stimulus package on [27 March](#) (11% of GDP). The **Federal Reserve** has cut interest rates to 0-0.25% on [15 March](#) and offered US\$3 trillion in loans and asset purchases ([3 April](#))
- The **European Central Bank** announced assistance packages for €120B on [12 March](#) and €750B on [18 March](#) (together 7.3% of GDP), up to €3 trillion in liquidity through refinancing operations and an interest rate cut to -0.75% ([19 March](#))
- **China** has announced RMB 2.6 trillion in measures (2.5% of GDP) and cut its interest rate to 4.05% ([IMF, 10 April](#)).

Australian economic environment and assistance measures

6,500 confirmed cases and 63 confirmed deaths
([WHO, 17 April](#))

- Interest rates down to 0.25% and the Reserve Bank is providing \$90B to increase bank lending ([RBA, 19 March](#))
- IMF projects the Australian economy to fall by 6.7%p this year (but expand by 6.1%p in 2021) and unemployment to average 7.6% in 2020 and 8.9% in 2021 ([IMF, 6 April](#)). A recession is now very likely ([Grattan Institute](#))
- Australia's financial system is resilient and well placed to deal with COVID-19; the banking system is well capitalised and in a strong liquidity position; substantial financial buffers are available if required to support the economy
- Australians are warned to prepare for at least six months of disruption to society ([Prime Minister's Statement, 22 March](#))
- Federal Government has so far announced three economic stimulus packages of \$17.6B on [12 March](#), \$66.1B on [22 March](#), and \$130B on [30 March](#) (together 16.4% of GDP). This is in addition to \$2.4B for health sector support on [11 March](#), \$715M for airlines and airports on [18 March](#), and \$15B to deliver easier access to finance on [19 March](#). States and Territories have

announced further packages worth approximately \$11.5B (see [The Guardian](#) for a summary of packages).

Macroeconomics, Australia's economic sovereignty and innovation

While much of the focus has been on flattening the curve, developing a vaccine and the immediate economic impacts of COVID-19, there has also been discussion about the economic recovery and the post-COVID economy. In particular, concepts such as economic sovereignty, sovereign capability and self-sufficiency have gained traction.



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Australia's economic sovereignty

- Economic sovereignty is a term used to describe a country's ability to control its own monetary system and economy without the influence of foreign countries or international capital markets ([Quiggin, 2001](#)). Self-sufficiency is a term used to describe a country's ability to supply its own needs without external assistance ([Merriam-Webster Dictionary](#))
- In Australia, these concepts have gained traction following a series of government statements, starting with the temporary reduction of the foreign investment review threshold to \$0 'to protect Australia's national interest' and which significantly increases scrutiny on all foreign investment into Australia ([Treasurer's Statement, 29 March](#))
- Then in response to a journalist's question about how Australia will look as a society on the other side of this crisis, Prime Minister Morrison said 'we need to look carefully at our domestic economic sovereignty' and 'how we can best put in place the policy environment

that gets the best outcome on the other side' ([Prime Minister transcript, 7 April](#))

- A day later, Prime Minister Morrison said Australia's 'sovereignty is enabled by having a vibrant market economy that underpins our standard of living' ([Prime Minister's Statement, 8 April](#))
- Another day later, Treasurer Frydenberg responded to a journalist's question about self-sufficiency saying 'we have to have a level of self-sufficiency...these are issues we, as a Government, will be looking at over the course of the period after the coronavirus' ([Treasurer's Statement, 9 April](#)).

The road ahead

- Although the details of the Government's intended policy environment regarding our economic sovereignty and self-sufficiency are not yet clear, an initial step was to establish the [National COVID-19 Coordination Commission](#) (NCCC) to 'minimise and mitigate the impact of the COVID-19 on jobs and businesses, and to facilitate the fastest recovery possible'
- Andrew Liveris, special advisor to the new NCCC, believes Australia needs to use the crisis as an opportunity to look at on-shoring key capabilities, restore local manufacturing, and focus on competitive advantages in some sectors (Liveris identifies health, defence, cyber energy, water and food) ([AFR, 9 April](#))
- Roy Green, Emeritus Professor at UTS, sees competitive advantage as achieved through [smart specialisation](#) in global markets and value chains, with 'an unrelenting focus on quality, design and innovation'. Green believes

Australia needs: a new National Industrial Strategy Commission to undertake knowledge foresight; a deepening of industry-research collaboration around national missions; more industry clustering/precincts; better use of public procurement policy to support SMEs; and a workforce whose skills match industry need and whose talent is amply drawn on ([AMF, 14 April](#))

CSIRO Futures is currently undertaking a study on the value of innovation which will discuss how innovation could lead the Australian economy's post COVID-19 recovery and increase resilience.

Conclusion

1. In the **short term**, the focus is on slowing the spread of COVID-19 and economically protecting Australian households and businesses, while securing critical medical items and funding vaccine development and related science
2. In the **long term**, focus should shift to how science, technology and innovation can lead the Australian economy's recovery and strengthen Australia's resilience for future events.

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