

Analysis of Fiscal Policy and Monetary Policy during Covid-19 Crisis---an Australian perspective

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Abstract. The outbreak of new coronavirus pneumonia in 2020 has emerged as a significant global epidemic, representing a profound disaster. All nations encounter a shift towards crisis management frameworks, exhibiting variable levels of success in limiting the spread of the virus and mitigating economic repercussions. This is by far the most far-reaching public health event of the 21st century on a global scale, with immeasurable research significance from immunological, economic, and sociological perspectives. For the continent of Australia, which is alone in the ocean, the Australian community could not carry the blow once the epidemic exploded across the country. So, as early as the 20th of March, Australia quickly declared a "border closure", banning all non-Australian citizens and non-permanent residents from entering the country. Moreover, with regard to the movement of persons, production activities and control of cases and close contacts in the region, each oblast has adopted restrictive measures of varying degrees, depending on the severity and development of the outbreak. The special geographical conditions and the policy of a completely closed borderline allow us to value the effectiveness of the Australian government's and banks' response to the stimulus provided by the COVID-19 policy directly by removing most of the external conditions from the equation.

Keywords: Covid-19, Australian economy, Fiscal policy, Reserve Bank of Australia.

1. Introduction

1.1. Background

Australia is a nation that has achieved industrialization and possesses a highly advanced agricultural sector, including animal husbandry. It boasts abundant natural resources and is renowned for its substantial output of sheep, cattle, wheat, and sugar. Additionally, Australia holds a prominent position as a global producer and exporter of minerals. A mix of old and emerging businesses characterizes Australia's economy. Agriculture, animal husbandry, and mining have played significant roles in the country's economic landscape. However, there has been notable growth in the manufacturing and high-tech sectors in recent years. The service industry has also emerged as the leading sector in the national economy.

Australian GDP is stabilized between 1300-1500 billion US dollars; as Fig.1 shows, the annual growth rate fluctuated around 2.5% from 2012-2019, before the pandemic. In January 2019, Australia's first case of COVID-19 was reported in Victoria, and the cases began surging in March. The government announced that Australia's quarterly GDP plunged 7 per cent in March-June 2020, which was the biggest drop since records began in 1959.

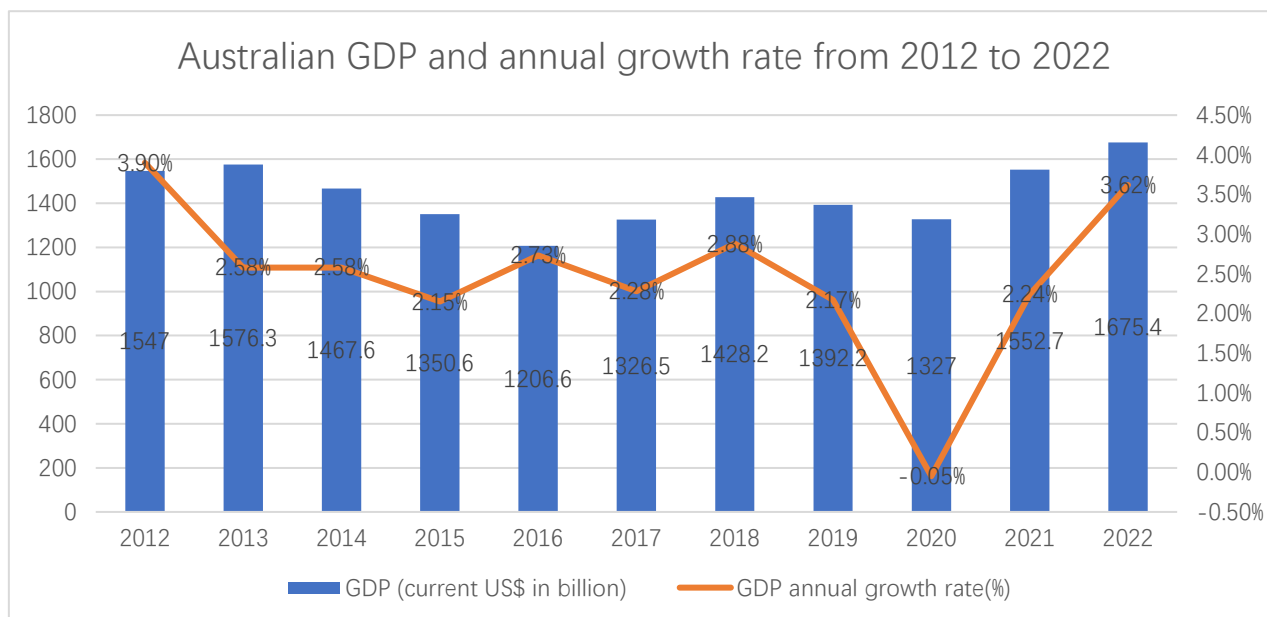


Figure 1. Australian GDP and annual growth rate from 2012 to 2022 Data source [1]

1.2. The COVID-19 Epidemic in 2020

Table 1 summarises an Australian epidemic timeline of 2020. Australia's first reported case of COVID-19 was confirmed on January 25, 2020, in Melbourne. The first covid wave started to surge in March 2020. There have been 6808 confirmed cases of COVID-19 in Australia as of May 1, 2020 [2]. The illness had claimed the lives of 98 of them. It took Australia a year to go through all the lockdown and quarantine policy, and people’s lives have temporarily returned to normalcy despite all the new variants and waves coming next year.

Table 1. The timeline of COVID-19 hitting Australia in 2020 [3]

Month	Item
Jan	Australia's first case of COVID-19 is reported in Victoria.
Feb	The number of cases remains relatively low but starts to increase. The government initiates travel restrictions and quarantine measures.
Mar	COVID-19 cases surge, prompting the Australian government to close its borders to non-residents and implement strict lockdowns and social distancing measures.
Apr	The first wave of COVID-19 in Australia is beginning to recede, and the government is gradually easing restrictions.
Jun	The virus's spread had been effectively halted in many parts of Australia.
Sep	The situation improved, and the government started easing restrictions.
Dec	Temporary return to normalcy

1.3. Australian Fiscal and Monetary Policy Stance in General

For fiscal policy, Australia has established popularity throughout history for its steadfast dedication to responsible fiscal governance. The government's primary objective was to sustain a budget surplus or achieve a balanced budget throughout the economic cycle. The emphasis on fiscal restraint directly reacted to apprehensions regarding the preservation of a stable economy and the mitigation of inflationary pressures. Furthermore, Australia has prioritized infrastructure spending as a crucial element of its budgetary policy. The allocation of resources towards infrastructure development, encompassing various projects such as constructing roads, bridges, and public transport systems, has been widely recognized as a strategic approach to enhance economic growth and productivity over an extended period.

Australia has experienced a government deficit for most of the years. Short-term cyclical causes and long-term structural factors can contribute to budget deficits. Economic downturns and unexpected expenditures are common causes of short-term deficits, whereas permanent revenue and spending mismatches are at the root of structural deficits. As Fig.2 shows, the government has tended to narrow its budget deficit since 2014, and the main reason behind this action is the huge government debt cumulating. finally, in 2019, the Australian government achieved a budget surplus for the first time in the past 10 years. However, the outbreak of Covid-19 twisted everything. To ensure the availability of health resources and social welfare and to cope with the economic downturn, the Government has had to invest in increasing its financial expenditure. The government budget deficit reached its record high--- accounting for 6.6% of Australia's GDP.

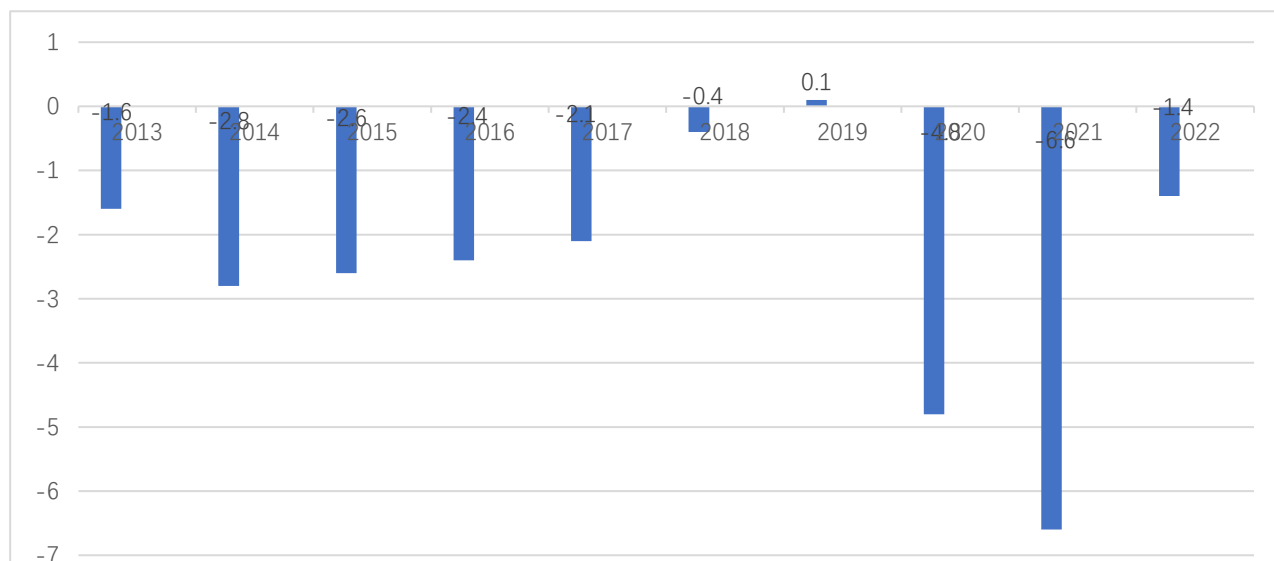


Figure 2. Government budget balance as percentage of Australia's GDP [4]

For monetary policy, the Reserve Bank of Australia (RBA) has placed significant emphasis on the objective of inflation targeting, setting a specific target range for inflation at 2-3%. The Reserve Bank of Australia (RBA) utilises its primary policy instrument, the official cash rate, to control inflationary pressures and the broader state of the economy. The RBA is responsible for ensuring the stability and soundness of the financial system. It may use prudential regulations to manage risks in the banking and financial sectors.

The cash rate is an important tool used by the RBA to implement monetary policy, as the cash rate can directly affect the interest rate set by all other commercial banks in Australia. Suppose the RBA lowers the cash rate, indicating that the cost of borrowing from the RBA is lower than before. In that case, the commercial banks will reduce the interest rate in response, making borrowing money for individual consumers and businesses cheaper. Table 2 below analyses the cash rate target and the RBA's effective date from 2019 to 2022. The following section will further discuss this table in accordance with the Australian inflation rate during such period.

Table 2. RBA's cash rate target setting from 2019 to 2022 [5]

Effective Date	Change % points	Cash rate target
7/8/2019	0.00	1.00
4/9/2019	0.00	1.00
2/10/2019	-0.25	0.75
4/12/2019	0.00	0.75
4/3/2020	-0.25	0.50
20/3/2020	-0.25	0.25
7/10/2020	0.00	0.25
4/11/2020	-0.15	0.10
6/4/2022	0.00	0.10
4/5/2022	0.25	0.35
8/6/2022	0.50	0.85
6/7/2022	0.50	1.35
3/8/2022	0.50	1.85
7/9/2022	0.50	2.35
5/10/2022	0.25	2.60
2/11/2022	0.25	2.85
7/12/2022	0.25	3.1

1.4. Objective

This paper will concentrate on a number of critical matters: the fiscal and monetary policies enacted throughout the pandemic and their respective levels of effectiveness. A comprehensive exploration of these issues will provide deeper insights into the influence of the COVID-19 pandemic on the global economy. Additionally, it will offer valuable insights for the Australian government and businesses, enabling them to craft more efficient response strategies that facilitate well-rounded and sustainable growth in domestic and international trade.

2. The Implementation of Fiscal and Monetary Policy During the Crisis and Its Impact

2.1. Fiscal Policies were Implemented in the Pandemic Period and Their Effects

The COVID-19 pandemic has substantially increased labour market underutilization, with more people wanting a job or to work more hours than employers need. The economic outlook was highly uncertain, so the unemployment rate was elevated, as shown in Fig.3. The unemployment rate surged from July and remained high for the rest of 2020, resulting in an average unemployment rate of 6.9%. In conjunction with the timeline in Table 2 mentioned above, it can be noted that the month unemployment increased was when the epidemic officially began to peak in Australia regarding cases of contagion.

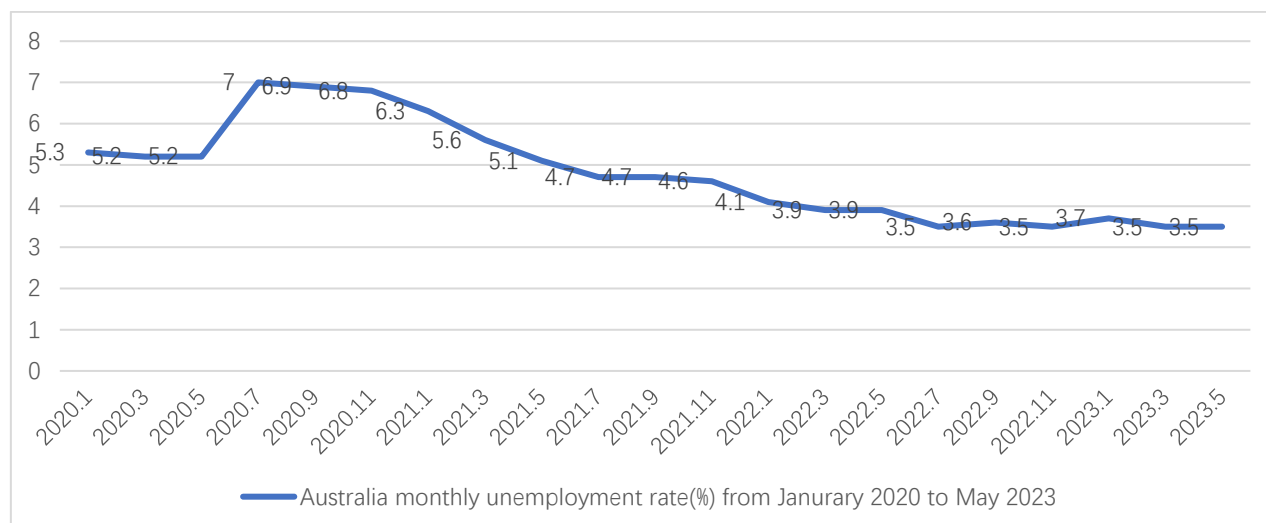


Figure 3. Australia's monthly unemployment rate (%) from January 2020 to May 2023 [6]

Australia's government implemented various policies in response to the COVID-19 pandemic to safeguard public health and mitigate economic disruptions. These policies had a significant impact on various aspects of the country.

Australia's border closures, implemented in response to the COVID-19 pandemic, have notably affected the country's balance of payments. Border closures restricted the movement of goods, both imports and exports. While it reduced imports, as Australians purchased fewer foreign goods and services, it also disrupted export markets, particularly in industries like tourism, education, and international students. This led to a decrease in the value of goods exports, negatively affecting the trade balance within the current account.

Moreover, the JobKeeper and JobSeeker programs implemented by the Australian government in response to the COVID-19 pandemic have significantly affected the country's balance of payments, primarily through their impact on the domestic economy. JobKeeper provided wage subsidies to businesses to retain employees during the economic downturn. This program helped support domestic demand by preventing widespread job losses and maintaining consumer spending. As shown by Fig. 3, the unemployment rate has returned to the pre-pandemic standard (5.1%),

Fig.2 states that government debt rose significantly and the government's plan to reduce fiscal spending has been completely derailed. The COVID-19 problem has necessitated a significant rise in debt-financed government spending, yet under the current circumstances, the benefits of this debt are disproportionately great compared to its costs [7]. However, from the perspective of safeguarding social welfare and healthcare at the moment of the epidemic, the Australian government's fiscal decisions were timely and effective.

2.2. Monetary Policy Implemented in the Pandemic Period and Its Effect

Consumer Price Index (CPI) is closely related to Australia's economic condition, as CPI is one of the most crucial factors in measuring the cost of living. Moreover, Inflation should be kept low and steady for a healthy economy. The CPI can be used as a measure of inflation. As Fig.4 shows, the monthly CPI in April 2020 plummeted to 0, which can be seen as an implication of deflation. Lack of demand from consumers, an abundance of available products and services, or sluggish economic conditions are all potential causes of deflation. In conjunction with Table 2, the RBA already took immediate fiscal measures in March, setting a 0.25% lower cash rate target from the previous month on the 4th of March. However, as the cases started ballooning, the anticipation for the future economic condition kept worsening; 16 days later, on the 20th of March, the RAB lowered the cash rate target by 0.25% again. The CPI improved slightly and stabilised around 1% for the rest of 2020. In December 2020, the RBA set the cash rate target to 0.1 --- a record low cash rate target ever --- to lower the interest rate and stimulate the economy. Such a cash rate target has remained until April 2022; the Australian economy will not return to pre-epidemic levels until at least 2022.

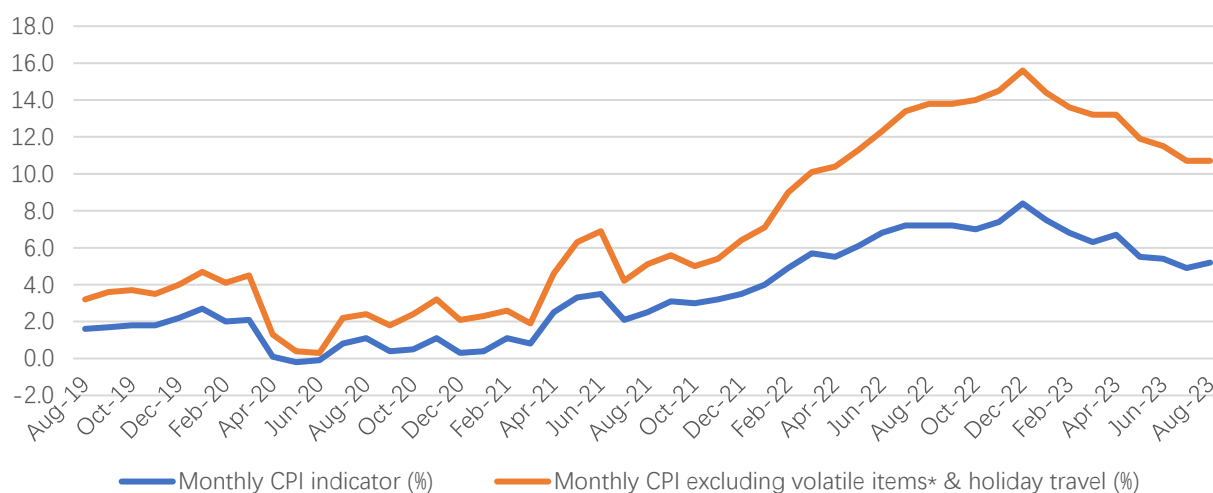


Figure 4. Australia's monthly CPI from August 2019 to August 2023 Data Source [8]

Another reason that the RBA cannot simply increase the case rate and thus the interest rate is that the economy cannot bear the cost of current appreciation as a result of an increase in the interest rate. Moreover, it must also accept the necessity of retaining supplementary government debt and perhaps acquiring a significant amount of new debt in order to mitigate a sudden surge in long-term interest rates and the value of the Australian dollar [9]. Monetary policy relaxation plays a crucial role in supporting fiscal policy through its ability to decrease the borrowing expenses of the government. This phenomenon can occur even when interest rates are at zero, by employing unorthodox monetary measures, specifically through substantial acquisitions of government bonds. [10]. The RBA will have fewer opportunities and face more challenging decisions in the post-COVID world expected to emerge.

2.3. Evaluation of the Australian Government's Fiscal and Monetary Policies During the Pandemic Period

It can be stated that when a global crisis hits a country, there is not enough room for the monetary policy to try to stabilize the economy. During the pandemic, no one knows when it will all end, and everyone is looking down on the future economic outlook; even a lower-to-zero interest rate can barely show an effect, as no one is attempting to borrow money and be involved in any investment activity.

On the other hand, fiscal policy is relatively more flexible than monetary policy, as government spending can be put on many sectors of the country to help rescue the economy from many dimensions. In terms of public health, the government can increase the number of hospital beds and invest in vaccine research and development. In social welfare, Job seekers and Job keepers are implemented to secure people and their families from daily living.

3. Opportunities and Perspectives: Implications for Driving Australian Business in the Post-Epidemic Era

The distance of Australia and the low population density there contribute, in no small part, to the country's successful management of COVID-19. In addition, Australia took swift action to contain the epidemic by shutting down its borders on the 20th of March. This was followed by the closure of individual states in an effort to reduce the amount of unnecessary travel. In response to worsening economic conditions and rising rates of unemployment, the government also instituted a stringent embargo policy. During this same time period, science academies were busy researching the strain of the virus in order to get ready for the development of vaccines and medicines that are actually effective.

The outbreak has had some impact on the Australian economy, with both the government and the RBA introducing policies in an attempt to stimulate the economy. Australia's current economic instruments are raising social consumption levels, solving employment problems, easing corporate cash flow shortages, supporting the import and export chain, and seizing opportunities in international financial markets.

There are many challenges that the Australian government faced during the pandemic period; one of them is the resurrection of the tourism industry. Although the early and decisive social distancing policy let Australia succeed in decreasing the infection rate, the income from the service industry has also ceased. Tourism was the hardest hit; the airline and catering industries were directly affected. It's hard for the government to compensate for such a huge financial cost and bring those back to the peak level during the post-pandemic era. The societal consequences of unstable employment situations and underemployment must be considered as a whole, particularly in those areas of the economy that are hit the hardest, such as the hospitality and education industries [11].

4. Conclusion

The epidemic has had a major effect on Australia's politics and economy. Politically, postponing the election and obstructing international cooperation has been difficult for the government; economically, Australia has faced enormous challenges due to damage to the tourism industry, trade dependence, and job difficulties. However, the epidemic has also given valuable lessons to the government and the community, and improving national self-reliance, strengthening public health systems, and diversifying the economic structure have become important responses to the epidemic. The Government, for its part, needs to bring economic stimulus packages, improve surveillance and control of the epidemic, and enhance international cooperation mechanisms.

The above paragraphs have discussed some of the fiscal and monetary policies the Australian federal government and the Reserve Bank of Australia have implemented since the outbreak of COVID-19. By analyzing the financial cost those policies those policies have encountered, the effectiveness of fiscal and monetary policy has been evaluated. During such a profound crisis, fiscal and monetary policy are crucial for stimulating the economy. However, fiscal policy is relatively more effective than monetary policy due to its direct impact on consumer demand and is more well-targeted on special.

In conclusion, the COVID-19 pandemic has highlighted the need for strong fiscal and monetary policies that are dynamic, targeted, and coordinated to deal with economic crises. Policymakers should be flexible and use all tools to aid in economic recovery and resilience.

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