TE TAI ŌHANGA
THE TREASURY

Reference: 20200109

13 July 2020

s9(2)(a)

Dear s9(2)(a)

Thank you for your Official Information Act request, received on 10 March 2020. You requested:

> *Under section 12 of the Official Information Act 1982, I request a copy of all advice the Treasury has provided the Minister of Finance in relation to the economic impacts of COVID-19 in the period 1 December 2019 to 10 March 2020.*
>
> *Where information is withheld, please provide the reason for refusal and the grounds in support of that reason as required by section 19(a)(i) and (ii) of the Act.*

As you are aware, on 6 April 2020 I extended the timeframe to decide on your request by 60 working days.

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	31 January 2020	Aide Memoire: Possible impacts of the coronavirus on the New Zealand economy	Release in part
2.	14 February 2020	Aide Memoire: Macroeconomic impact of COVID-19 on the New Zealand economy - update	Release in part

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https://treasury.govt.nz

3.	18 February 2020	Aide Memoire: Development of COVID-19 economic impact scenarios and advice ahead of Economic Development Committee	Release in part
4.	4 March 2020	Ad Hoc Cabinet Committee on COVID-19 Response (CVD) Briefing	Release in full

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- direct dial phone numbers of officials, under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

Information publicly available

Several proactive releases of information are planned for advice provided to the Government on the economic impact of COVID-19. This information will include some more material in scope of your request.

The first information release was published on the Department of Cabinet and Prime Minister website on Friday 8 May and a second tranche on Friday 26 June: covid19.govt.nz/resources/key-documents-and-legislation/proactive-release/.

Furthermore, the Weekly Economic Updates and Monthly Economic Updates published on the Treasury website also contains information relevant to your request:

Date	Document description	Website
3 February 2020	Weekly Economic Update: January 2020	https://treasury.govt.nz/system/files/2020-01/weu-jan20.pdf
3 February 2020	Monthly Economic Indicators: January 2020	https://treasury.govt.nz/publications/mei/monthly-economic-indicators-january-2020-html
3 March 2020	Weekly Economic Update: February 2020	https://treasury.govt.nz/system/files/2020-03/weu-feb20.pdf
3 March 2020	Monthly Economic Indicators: February 2020	https://treasury.govt.nz/publications/mei/monthly-economic-indicators-february-2020

6 March 2020	Weekly Economic Update: March 2020	https://treasury.govt.nz/system/files/2020-04/weu-mar20.pdf

Therefore, under section 18(d) of the Official Information Act I am refusing the rest of your request for official advice on COVID-19 – the information requested is, or soon will be, publicly available.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This reply addresses the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

David Hammond
Team Leader Ministerial Advisory

OIA 20200109
Information for release

IN-CONFIDENCE

TE TAI ŌHANGA
THE TREASURY

Reference: T2020/175 BM-3-4-3 (Ad-hoc Issues)

Date: 31 January 2020

To: Minister of Finance (Hon Grant Robertson)

cc: Associate Minister of Finance (Hon Dr David Clark)
Associate Minister of Finance (Hon David Parker)
Associate Minister of Finance (Hon Shane Jones)
Associate Minister of Finance (Hon James Shaw)

Deadline: None

Aide Memoire: Possible impacts of the coronavirus on the New Zealand economy

This note provides Treasury's initial thoughts on the potential impact of the novel coronavirus (2019-nCoV) on New Zealand's economy. Note that, since the situation is fluid and there are many unknowns, this is a high-level overview providing a qualitative assessment of the possible impacts (no modelling has been done). We have consulted with MBIE, MFAT, and MPI.

Key points:

- The main sector to be immediately affected is tourism.
- China has banned outbound group tours and package holidays (reportedly for 2 months), which account for around 50% of Chinese tourism spending in NZ.
- It is too early to produce credible estimates of the final impact. In a scenario where tourist arrivals drop by 10% to 15% in one quarter (roughly equivalent to zero arrivals from China for one quarter), this could reduce real GDP growth by 0.6%-1.0%. Whether arrivals will drop by this amount remains to be seen.
- The SARS experience suggests that when the virus is contained, activity will quickly return to normal.
- The direct impact on merchandise trade is expected to be minor at the aggregate level, with the impacts likely to be concentrated in a few sectors such as seafood. Although demand may be curtailed and transport disrupted, we expect most trade to be redirected to other markets, albeit at some cost.
- Should the virus spread to NZ with a large number of cases, there will be wider impacts, in particular on the services sector, labour supply, health costs, and overall living standards.
- Our preliminary and final economic forecasts will include some impact from the coronavirus, but it is too early to assess the magnitude of the impact.

Background

The virus has spread to 18 countries outside of China with more than 7,000 confirmed cases, according to the World Health Organization (WHO), at the time of writing, with 82 outside of China.[1]

To contain the international spread of the disease the Chinese government has put a temporary ban on all outbound tour groups as well as package holiday sales. Authorities in other countries have taken measures to limit travel to China and to minimise the threat of transmission from China.

Chinese tourism in New Zealand

Chinese tourists account for around 12% of all tourists and 15% of all tourist expenditure (Table 1).

Table 1: International visitor numbers & expenditure by country of origin (YE June)

		Visitor arrivals				
		Australia	**China**	**Other Asia**	**Other**	**Total**
Number	2002	525,354	47,675	362,620	734,327	1,669,976
	2019	1,328,107	390,147	521,631	1,144,913	3,384,798
Share	2002	31%	3%	22%	44%	-
	2019	39%	12%	15%	34%	-
		Visitor expenditure				
		Australia	**China**	**Other Asia**	**Other**	**Total**
Value ($billion)	2002	1.2	0.2	1.6	3.7	6.7
	2019	2.6	1.7	1.7	5.2	11.2
Share	2002	18%	3%	24%	55%	-
	2019	23%	15%	15%	46%	-

Source: Stats NZ

Tour groups and package holidays account for around half of all Chinese visits and visitor spending (Table 2).

Table 2: Composition of Chinese visitors to New Zealand (YE June 2019)

	Visitor numbers		**Expenditure**	
	Number	*Share of Total*	*Value ($m)*	*Share of Total*
Independent travel	205,475	53%	849	50%
Tour groups	62,024	16%	231	14%
Package holidays	120,124	31%	599	35%
Other	2,524	1%	14	1%
Total	**390,147**		**1,694**	

Source: Stats NZ

[1] The Republic of Korea, Japan, Nepal, Vietnam, Cambodia, Thailand, Singapore, Sri Lanka, Malaysia, France, Germany, Canada, USA, Australia, the United Arab Emirates, Finland, Philippines, and India.

Comparison with SARS outbreak (2002-03)

The severe acute respiratory syndrome (SARS) outbreak provides a basis for comparison; table 3 summarises its impact.

Table 3: SARS impact summary		
	SARS (2002-03)	**2019-nCoV (as of 29 Jan)**
Confirmed global cases	8,437	7,818
Deaths	813	170
Mortality rate	9.6%	2.2%
Asian regional impact	Sharp but short-lived decline in retail sales and tourism	
NZ tourism impact:	**2003 H1 vs. 2002 H1**	
Chinese tourist arrivals	-5,823	
Other Asian tourist arrivals	-32,325	

Compared to the SARS virus in 2003, 2019-nCoV has two key differences. Firstly, the virus is airborne; and secondly, carriers of the virus are infectious while not experiencing any symptoms (the incubation period is estimated to be around 6-14 days, compared to 7 days for SARS).

The reproduction rate of the virus[2] is currently estimated by the WHO at 1.4 - 2.5. Other estimates put this number above 3.0. The SARS reproduction rate ranged between 2 and 4. So far, 2019-nCoV has a lower mortality rate, with deaths concentrated on the ill or elderly, while no deaths have thus far been recorded outside of China.

The severity of the impact on the NZ economy is dependent on how widely the virus spreads globally, and in particular, how many cases we have in NZ. As such, we look at the various channels for three scenarios separately.

Scenario 1: Limited cases in NZ

Direct impact will be concentrated on the tourism sector

The number and share of Chinese visitors has increased notably over the past two decades. Therefore, the potential impact on NZ's tourism sector could be more severe than was seen in 2003 with the SARS outbreak. On the other hand, measures taken by the authorities in China and other countries may limit the spread of the virus, and fewer tourists outside China may postpone or cancel trips.

Measures taken by the Chinese authorities include **a temporary ban on all outbound tour groups as well as package holiday sales** (i.e. when flights and accommodation are booked together). We do not have a clear understanding of how the ban is to be applied and it may affect a larger proportion of travel. At this stage it is unclear for how long the ban will remain in place, although media reports suggest 2 months. There are also reports of a cancellation of some seafood product import orders, but we do not yet know the extent of this.

[2] The average number of people that an infected person will cause to become infected. This is also called 'contagiousness'.

The current ban on travel will affect the tourism sector in the current March quarter and likely also the June quarter. It is too early to rule out further impacts. **In a scenario where Chinese visitors fall to zero for one quarter, which is equivalent to a 10%-15% fall in tourism spending, we estimate that the potential impact on travel receipts could lower tourism earnings by around $0.5 to $0.8 billion or around 0.6%- 1.0% of quarterly GDP.**

To give some context, during the SARS outbreak, total visitor arrivals fell by 8.5% in 2003Q2 compared to the previous quarter. In comparison, in 2001Q4 (following the 9/11 terrorist attacks), tourist arrivals fell by 10.8%.

It should be noted, however, that NZ operators will not necessarily take a full hit on these cancellations, as some of the cancelled travel may be covered by insurance.

Regarding education exports, there might be some delays in arrivals from students from Asia for the start of the new study year. As far as we could establish, China has not placed any restrictions on non-tourist travel. If this changes, or if the spread of the virus is not brought under control by mid-February, we could see a larger impact (but it would still be small relative to tourism receipts).

The SARS experience suggests that when the virus is contained, activity will quickly return to normal. Assuming a similar timeline to SARS, activity will rebound swiftly in the subsequent quarters, taking tourism revenues back to previous levels. In terms of outbound travel, MFAT has advised New Zealanders to avoid non-essential travel to China. We can therefore expect to see a small offsetting decline in the number of NZ residents visiting China. In 2018, China accounted for about 4.0% of total NZ outbound travel.

The ***direct* impact on merchandise trade is expected to be minor at the aggregate level**. In particular, rock lobster exports worth around $300m annually have halted and China has historically been the most lucrative market. In aggregate, however, exporters should be able to divert goods to other markets; as such, the impact would be on prices rather than volumes.

The virus has had an impact on **financial markets**. On 28 January, the NZ All Share Index declined by 1%, the biggest daily fall since 23 October 2019, with tourism-related companies such as Air New Zealand and Tourism Holdings leading the decline. Similarly, the NZD has weakened as investors worldwide flee to perceived less-risky assets. The negative impact is likely to be temporary, though this is dependent on how quickly and widely the virus spreads.

Impact via slowdown in Chinese demand

As our biggest trading partner, **a slowdown in China as a result of the virus may have a notable impact on NZ via its effect on Chinese demand for our goods and services**. The SARS outbreak had a negative impact on Chinese retail sales and tourism, as people avoided travel and visiting crowded areas. Additionally, there could be an impact on labour productivity and hours worked if people are either sick or they consider it too risky to go to work. China's retail sales growth fell to 4.3% year-on-year in May 2003 (the peak of the SARS outbreak), from an average of 9% in the previous 9 months, but rebounded quickly in the subsequent months. Similarly, real GDP growth fell from 11.1% year-on-year in 2003 Q1 to 9.1% year-on-year in Q2, before rebounding. **The following factors could result in a less severe impact this time around:**

- Increased importance of online shopping;
- Improved public health system and public awareness; and
- A quicker and more substantial response from Chinese authorities to contain the spread of the virus.

Conversely, travel intensity and transport links within China and in the wider region is now higher, as is Chinese travel abroad. China is now also a much more important trading partner for NZ than in 2003. **In 2003, China accounted for 5% of NZ's goods exports; this has since risen to 28%**.

During the SARS outbreak, the growth in NZ's commodity exports to China slowed substantially. The rebound was quick, and absolute trade levels were not significantly affected. We note also the possibility of trade diversion from regions directly affected by the virus. Another factor counting in NZ's favour is that a large proportion of our exports to China are essential rather than luxury goods, with the latter being less affected by temporary income pressures. As such, the main impact on our commodity exports should be via price adjustments, rather than volume declines.

Scenario 2: The virus spreads substantially through NZ

In this scenario, in addition to the above effects, there might also be the following **direct impacts on the local economy**:

- Slowdown in the services sector, as people avoid visiting public places.
- Temporary impact on labour supply due to more people being sick, caring for dependents, or opting not to go to work due to the risk of getting infected.
- If the number of infections rise substantially, there could also be a permanent negative impact on labour supply due to deaths. Due to lower-income people's access to health services being below-average, the impact would be unequal on a regional and sub-population basis.
- Increased healthcare costs, probably spread unequally across the population.
- Negative impacts on income, health, social connections, and mental wellbeing.
- Negative impact on government tax revenue.

Scenario 3: The virus turns into a global pandemic

A Treasury Paper published in March 2006 assessed the economic impact on NZ if the H5N1 avian influenza were to turn into a global pandemic. The authors estimated that GDP could fall by 0.7%-2.1% in the first year, and up to 2.8% of one year's GDP over a 4-year period.

Implications for our economic forecasts

Our preliminary and final economic forecasts will include some impact from the coronavirus, but it is too early to assess the magnitude of the impact at this stage. One commentator has estimated an impact of around -0.1% points of GDP growth. Estimates may well be revised as more information becomes available.

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TE TAI ŌHANGA
THE TREASURY

Reference: T2020/274 BM-3-4-3 (Ad-hoc Issues)

Date: 14 February 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: 17 February 2020

Aide Memoire: Macroeconomic impact of COVID-19 on the New Zealand economy - Update

This Aide-Memoire updates you on our view of the macroeconomic implications of the coronavirus (COVID-19) outbreak for the New Zealand economy ahead of Cabinet on Monday, where the macroeconomic impact and possible policy response options may be discussed. Potential talking points for this discussion are below. Treasury has also provided a briefing for the Cabinet Paper '*Response to impacts of COVID-19 on Tourism Sector*', which comments on the specific sectoral policy options that will be presented to Cabinet.

Treasury will provide further advice next week (in collaboration with MBIE) on the economic impacts of a prolonged coronavirus epidemic under different scenarios, including what the triggers for further policy interventions under each scenario would be.

The situation is fluid and the overall impact and prospects are highly uncertain. We will continue to monitor the impacts and incoming information and adjust our outlook accordingly.

Talking Points for Cabinet

- Treasury's preliminary BEFU forecasts will include a measureable but moderate and short-lived impact from COVID-19, with economic activity quickly returning to normal in the second half of 2020. The impact is expected to be concentrated in a few sectors.
- Automatic macroeconomic stabilisers will help partially offset the negative impacts on the affected sectors.
- Treasury does not think that any further funding / fiscal policy measures are required at this stage. If it takes longer to contain the virus, it is possible that targeted interventions would need to be considered. Treasury will provide more information on the scenarios that might trigger possible policy responses next week.

Note that we have provided to MBIE the information contained in this note on the global macroeconomic impacts and assessment and on the transmission channels, for incorporation in a joint briefing to Ministers. We have not provided to MBIE the assessment in this note of the likely impact on Treasury forecasts, because the forecasts are still under development.

Summary

- The COVID-19 outbreak has had and will continue to have a negative effect on the New Zealand economy, particularly in some sectors such as tourism. The size of that effect is uncertain. It will depend crucially on the duration of the outbreak and the success of measures in containing its spread.

- Past outbreaks of new viruses have caused significant, but short-lived, disruption to activity for those economies at the centre of the outbreak and those with a high degree of dependence on those economies. It is difficult to know if past episodes are representative of the current outbreak. For now, we take the view that they are and that the negative effects begin to ease within the next few weeks, with economic activity (and prices) quickly returning to normal.

- Treasury's preliminary economic forecasts, finalised on 13 February, include an assumption about the macroeconomic impacts of COVID-19. We assume that GDP growth will be weaker than otherwise in the first half of 2020, but will correct over the second half of 2020 as the virus is contained, global growth picks up and supply conditions normalise.

- Other forecasters have made similar assumptions. New Zealand's major private sector banks assume that GDP growth will be between 0.5 and 0.6 percentage points lower in total than otherwise over the March and June 2020 quarters. The Reserve Bank's February *Monetary Policy Statement* assumes that GDP growth is 0.3 percentage points lower than otherwise in the March quarter. These kind of assumptions would still leave real GDP growth clearly positive in the 2.0% - 2.5% range for 2020.

- Treasury will report to you on the preliminary economic and tax revenue forecasts next week, while an updated view of the fiscal outlook will be available ahead of Cabinet making final Budget 2020 decisions.

- The downside risks to our outlook stemming from coronavirus are mainly from a longer outbreak and more severe disruption. We think that the current probability of a recession is low. It could come about if the virus takes a lot longer to be contained and spreads to a number of countries outside of China, thereby severely restricting the movement of people and goods.

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Impacts on China, East Asia and Australia

The COVID-19 outbreak has lowered the near-term growth outlook for China and some other countries, particularly in Asia. In China, the economic effects include lower domestic travel and other goods and services consumption, and disruption to the

movement of goods. Business interruptions and closures are negatively affecting production. A number of international investment banks have revised their forecasts for China's full-year GDP growth from about 5.8% to 5.3%.

The effects of the outbreak are flowing through to other economies, particularly in East Asia, including through sharp falls in inbound Chinese tourism, disruption to supply chains and weaker Chinese demand for imports.

Activity in Australia is also being negatively affected through these channels and through education services exports, particularly higher education.

The Chinese authorities have announced a range of measures to help mitigate some of the adverse financial effects of disruption caused by the virus, including the provision of liquidity to maintain credit flows and relief for interest rate payments by firms. It remains unclear whether further support will be needed in response to the crisis. Monetary policy in some other Asian economies has been eased in response to the effects of COVID-19, while others have indicated a willingness to ease policy. In addition, some countries have signalled a willingness to provide fiscal support. Singapore's budget, due to be delivered on 18 February, will give an indication of their thinking on the economic effects.

China, East Asia and Australia are large trading partners for New Zealand (taking 23%, 17% and 15% respectively of total exports, and 55% in total), and overall growth in New Zealand's major trading partners will be lower as a result.

There is considerable uncertainty regarding the severity and duration of the viral outbreak. The more persistent the virus proves to be, the larger the effects on activity are likely to be. The economic outlook for China, and how policy responses there could affect China's demand for New Zealand's exports and the exports of New Zealand's other major trading partners in Asia, remains an important consideration for the New Zealand economy.

The table below illustrates the range of uncertainty around the situation. The Annex summarises the views of Wigram Capital Advisors.

Table 1: Citigroup forecasts of Chinese GDP growth under different scenarios

Scenario	2019-nCoV Outbreak Basically Comes Under Control	Probability	GDP Growth in 20Q1 (YoY)	GDP Growth in 2020 (YoY)
Optimistic	By end-February	20%	4.5%	5.5%
Baseline	**By end-March**	**60%**	**3.6%**	**5.3%**
Pessimistic	By end-May	20%	2.3%	4.4%

Source: NBS and Citi Research

Channels of transmission to New Zealand

The impacts on New Zealand can be viewed through three channels: trade, financial markets and confidence, discussed below.

Trade

Tourism is the most immediately affected industry. Chinese tourists typically spend around $180 million per month in the peak travel months of January through to April. Education services are at risk, particularly if restrictions on foreign travel remain in place into April. Prices for some goods exports, including meat, forestry and seafood have fallen, apparently because of the outbreak. Risks to these and other industries are summarised in the table below, which also shows how much more significant China is today for NZ exporters compared to 2002, before the SARS outbreak.

Overall, we expect export volumes and prices to ease in the first half of 2020. As China's activity returns to normal, so should export volumes and prices. Oil prices have declined from USD$60/barrel in January to around USD$50/barrel currently, which will likely result in lower petrol prices in New Zealand. Some goods imports may be disrupted, such as machinery and building materials.

The Chinese economy is a key driver of regional and global economic growth and has extensive global supply chains. There is a risk that disruption spreads throughout the region and beyond, further reducing export demand. In addition to the general impacts on demand (and therefore on exports), prolonged closure of borders and China's internal travel restrictions will increasingly disrupt supply chains, including for New Zealand firms.

Table 2: Impacts and risks to goods exports

New Zealand's merchandise trade with China: Key Sectors			
Sector	**Exports: 2002 (NZD'bn)**	**Exports: 2019 (NZD'bn)**	**Impacts & risk of disruption**
Dairy	0.2	5.3	**Medium risk**. Limited impact so far, and products have a long shelf life. Companies have been able to work around the challenges of slower port clearances and smaller air freight capacity.
Meat	0.1	3.4	**High risk:** Trade is continuing, but volumes are a bit lower. Storage and processing is at capacity, though market fundamentals remain strong. Companies are trying to shift supplies to other markets.
Forestry	0.2	2.9	**High risk**. Affected by port delays. Bad timing for the industry, as market conditions are already weak.
Preparations of milk, cereals, flour etc.	0.0	0.8	**Medium risk.**
Fruit & Nuts	0.0	0.7	**Medium risk**. Limited impact so far. Kiwifruit exports to China usually start in March and peak in April.
Seafood	0.1	0.7	**High risk**. The biggest impact is on rock lobsters, with diversion to other lower-value markets. Price declines of around $60/kg have been reported by some players in the industry.

Sources: Stats NZ, MPI

Financial markets

The exchange rate has depreciated a little against other major currencies in recent weeks, with the trade weighted index around 71.6 currently compared to an average of 72.7 over January. The lower exchange rate will provide some offset to exporters from the lower world prices being received for their goods. A further deterioration in the outlook for China would likely lead to further declines in the exchange rate, reflecting the tendency for higher global uncertainty to reduce demand for the New Zealand dollar. The stock market has not been affected much. The NZX All Index was up 3.1% for the year as at 13 February. Bond yields are slightly lower compared to the start of the year. In general, NZ financial markets are functioning normally.

Confidence effects

A short-lived period of disruption is unlikely to materially impact economic activity through lower business or consumer confidence. However, the risk grows as the duration and severity of disruption increases.

Data to monitor

The first signs of the impact of COVID-19 are likely to be reflected in confidence indices released at the end of February. Official data on February trade will be available in mid-March, while February travel data will be released in mid- April. March quarter GDP will be released after the Budget (but before PREFU). Please refer to the table below for the relevant data releases.

More timely data from other institutions (e.g. Customs, information from ports, and air passenger data from IATA) will help to inform our forecasts and judgements in the interim. We will also incorporate insights from importers and exporters that other agencies are receiving and from our business visits in coming weeks.

Table 3: Upcoming data releases

Date	Data Release
27 Feb	Overseas merchandise trade: January 2020
27 Feb	ANZ Business Outlook: February 2020
28 Feb	ANZ-Roy Morgan Consumer Confidence: February 2020
4 Mar	ANZ Commodity Price Index for February
7 Mar	Quarterly Survey of Business Opinion: April 2020
16 Mar	International travel: January 2020
25 Mar	Overseas merchandise trade: February 2020
27 Mar	ANZ-Roy Morgan Consumer Confidence: March 2020
30 Mar	Finalisation of BEFU forecasts
6 Apr	ANZ Commodity Price Index for March
14 Apr	International travel: February 2020
29 Apr	Overseas merchandise trade: March 2020
6 May	ANZ Commodity Price Index for April
14 May	International travel: March 2020
4 Jun	ANZ Commodity Price Index for May
18 June	Gross domestic product: March 2020 quarter

Overall assessment

Our preliminary BEFU forecasts will include a measureable impact from the coronavirus, reflecting impacts we have seen on services exports and on merchandise trade volumes and prices. Our assumptions and forecasts of the impact of the virus are broadly in line with those of the Reserve Bank and other domestic commentators. Under this assumption, the consequent impact on tax revenues should not be substantial.

These preliminary forecasts are based on the assumption that the virus is contained in the next couple of weeks and that activity returns to normal in China within a few weeks after that.

In the case of a more severe outbreak, these effects would be larger. Extensive outbreaks in other countries (with associated border closures and supply chain disruption) or ongoing infections and travel disruptions inside China, will lead to upward revisions of the impact. It is unlikely that the economic impact will be less than what we are currently assuming – the risk is all on one side.

Further work and advice

The Treasury is leading, coordinating and contributing to a number of work streams going on across government, including the following:

- We are working on joint advice, alongside MBIE, on the economic impacts of COVID-19 and possible responses. This will provide Ministers with advice on the economic impacts of a prolonged coronavirus epidemic under different scenarios, including what the triggers for further interventions under each scenario would be, and possible policy interventions that could be used. We expect to be able to provide this to you **on 21 February or earlier.**
- You will receive the preliminary BEFU forecasts **on 21 February.**
- We are involved in ODESC, including participating in the Watch Group and convening and chairing the Economic Advisory Group (EAG) that supports ODSESC. The EAG is meeting as often as needed currently. The last meeting was on 14 February, and the next one will be organised to align with the ODESC schedule.
- We have set up a process to respond to any additional funding requests that may come from other agencies, seeking funding for the response to COVID-19.
- Treasury is also engaged with the Export Advisory Group (led by New Zealand Trade and Enterprise), and Trade Response Coordination Group (led by the Ministry of Primary Industries).

Treasury will provide further advice next week on the economic impacts of a prolonged coronavirus epidemic under different scenarios, including what the triggers for further policy interventions under each scenario would be. Below is an initial plan for how we will approach that advice.

Status Quo

To reiterate, the analysis in this briefing is based on a scenario where the macroeconomic impacts are measurable, but temporary in the first half of 2020. This is consistent with the outlook of other forecasters in New Zealand.

Nevertheless, the impacts on specific sectors of the economy – in particular tourism, international education, and forestry – are more significant. On Monday, Cabinet will be considering the current measures in place to support these affected sectors and what could be done further immediately. MBIE is leading this advice and Treasury is providing input.

Under this scenario, no immediate macroeconomic policy response should be required. On 26 February, Treasury's advice on the fiscal strategy for Budget 2020 will take into account the impact of COVID-19, in the context of the general economic situation. That will inform the extent to which the fiscal policy stance may need to change in response to this scenario. The RBNZ will also make its next OCR decision on 25 March, and have signalled that they are monitoring the situation as an emerging downside economic risk.

Prolonged but Contained

The current uncertainty around the impact of COVID-19 may continue for longer than expected. For instance, the spread of the virus may peak later than mid-April, as currently expected by many forecasters. This could occur without an increase in the severity of the outbreak. But this prolonged uncertainty would increase the likelihood of disruptions to global supply chains and global market confidence and trading activity. All of this could occur without cases of the virus being confirmed in New Zealand.

Under this scenario, the damage to the directly impacted sectors of the New Zealand economy would deepen, and it is possible that many firms may struggle to absorb a prolonged downturn in activity. Further targeted interventions would need to be considered, through the welfare and business support policy systems. This should include consideration of whether additional funding may be required for certain agencies to implement the activity they are already beginning.

The economic impacts on New Zealand may also be broader in this scenario, in particular through channels like business confidence, and second-round impacts through domestic supply chains and reduced incomes for households and firms. However, in this scenario there will be some automatic macroeconomic stabilisers that will assist, such as a weakening NZD, which will assist exporters.

Treasury will continue to update its outlook on the likelihood of such a prolonged but contained scenario. Working with MBIE and other economic agencies through the ODESC, we will alert ministers on whether conditions justify a more coordinated macroeconomic policy response to such a scenario.

A More Severe Outbreak

In a case of a more severe outbreak, New Zealand will face a more fundamental economic disruption. The Chinese economy may slow considerably, outbreaks in Asia and other countries could bring further associated border closures and supply chain disruptions, and global trade and financial markets will be turbulent. Domestically, it may be accompanied by confirmed cases of the virus in New Zealand.

This is a tail-risk scenario. It is worse than the worst-case scenarios assumed by many domestic and international forecasters right now. If it occurs, it will be likely to require a rethink of the overall economic outlook for New Zealand, and require fiscal and monetary policy responses to offset the impact on the domestic economy.

Brendon Riches, Senior Analyst, Forecasting, s9(2)(k)
Melissa van Rensburg, Analyst, Forecasting, + s9(2)(k)
Hamish Slack, Team Leader, Forecasting, + s9(2)(k)

IN-CONFIDENCE

Reference: T2020/360 SH-1-6-1-3 (Coronavirus COVID19)

Date: 18 February 2020

To: Minister of Finance (Hon Grant Robertson)

Deadline: Before Economic Development Cabinet Committee meeting, 19 February 2020.

Development of COVID-19 Economic Impact Scenarios and advice ahead of Economic Development Committee

This paper provides you with an information to support your consideration of the paper *Response to Impacts of COVID-19 on Forestry Sector* at the Economic Development Committee (DEV) on Wednesday, 19 February. This paper provides:

- our advice on a paper that Minister Jones is taking to Economic Development Committee (DEV) on Wednesday 19 February 2020, on options for a forestry sector package,
- principles to apply when considering economic impacts of COVID-19, and
- an update on work by the Treasury on developing scenarios for the potential economic impact of the ongoing COVID-19 outbreak in China.

The Treasury's advice on *Options for a Forestry sector package to mitigate the impacts of COVID-19* Cabinet paper

The paper explains that the Chinese response to COVID-19, in prioritising the unloading of essential supplies over logs, and restricting the movements of workers, is delaying the resumption of full-scale wood processing and construction. This has led to reports that from next week key Chinese ports will reach log storage capacity. New Zealand forest owners and exporters are responding by reducing or stopping harvesting activities, and this is likely to continue for at least the next month. This could impact thousands of workers in the sector, although the effects are likely to be short-term. It will mainly fall on smaller forest owners because larger corporate foresters will be better placed to explore alternative markets for their wood products.

The paper sets out a 10 point plan for support, which can largely be implemented with industry willingness and from within existing resources. The Treasury supports the measures which do not require additional funding, as they will help to provide wellbeing and financial support for affected workers.

However, four significant options will require Cabinet agreement and financial commitments:

- Access to business advice for affected SMEs, for example professional financial advice (estimated cost: $1.5 million).
- Access to personal wellbeing and financial counselling for affected SME employees, sole traders, and business owners (estimated cost: $500,000).
- A time-limited subsidy or grant to small businesses, with a focus on owner-operators working in forestry harvesting and transport, to enable them to contribute towards the wages of workers who cannot be employed elsewhere. There are two options for how this could be delivered, either through business support grants (option 3a), or targeted wage subsidies (option 3b) (estimated cost: $6 million - $18 million).
- Additional funding for programmes to redeploy suitable forestry workers within biosecurity and or conservation.

We have included the following Treasury comment in the Cabinet paper:

> *The Treasury acknowledges the negative impacts of COVID-19 for the forestry sector and particularly workers. As mentioned in the paper, a range of sector-specific responses are already being managed within current system settings and baseline funding and affected workers should also be able to access existing support (e.g. Special Benefits, Jobseeker Support). The Treasury considers options 1 and 2 to be preferable in providing additional support to the industry.*
>
> *However, the Treasury is particularly concerned with options 3a and 3b, as these represent a significant precedent and potential fiscal risk by sending a signal to other sectors that funds are available to mitigate negative impacts. It will also be difficult to separate the impacts of COVID-19 from other structural issues and international factors that are affecting the forestry sector. There is not enough detail around option 4 to provide a view.*

The Ministry of Social Development (MSD) and the Ministry for Business, Innovation and Employment (MBIE) have also raised similar concerns around options 3a and 3b. In addition, MSD have also estimated a 4-6 week set-up time for the subsidy option. This may limit the effectiveness of this option given the expected short term nature of the impacts of COVID-19 on the forestry sector.

We also do not agree with the characterisation in the paper that the support package provided to businesses following the 2016 Kaikoura earthquakes could be a precedent for this type of funding. There is an important difference in the context of this proposal compared to the Kaikoura earthquake support package. The Kaikoura earthquake support was for a natural disaster with localised impacts. In contrast, the impacts of COVID-19 on the forestry sector are more as a result of international economic conditions. Additional financial support for the sector may create a precedent that the Government will intervene to support other sectors that have been impacted by international shocks, which would be a considerable financial risk.

If some funding were to be successful Treasury recommends this be held in a contingency and be a charge against the between-Budget contingency established as part of Budget 2019.

Principles to apply when considering economic impacts of COVID-19

In the context of this ongoing work to provide cross government advice to Ministers, you may wish to discuss the following principles with your colleagues at DEV to frame discussions and decision-making around whether, when and how the Government should intervene to respond to the impacts of COVID-19. Any response should be:

- **Balanced and proportionate**: Proposals should be appropriately targeted to the problem. The impact of COVID-19 is still not apparent, so there is a risk that introducing solutions at this stage means they are not proportionate to the scale of the issue. Interventions should take a balanced and economy-wide view of the issues, including broader economic conditions (e.g. impact of droughts).
- **Aligned with broader Government direction:** Proposals should align with, and not undermine, existing government strategy, such as the Economic Strategy. Where possible, interventions should progress the Government's current direction.
- **Sustainable:** Proposals should take a coordinated approach and avoid introducing precedent for interventions that cannot be extended across the economy. Consideration should be given to the outcome if downside risks do not eventuate, to what extent does action set precedent, or reduce ability to scale up if downside risks do eventuate.

Treasury work developing scenarios for the potential economic impact of the ongoing COVID-19

You requested that the Treasury work across agencies to provide joined up advice on the economic impacts of COVID-19, including scenarios for when government intervention might be triggered, and what potential responses might be for different sectors.

The Treasury chairs the Economic Advisory Group (EAG). The Treasury, MBIE and the Reserve Bank have been developing economic scenarios to help understand the potential economic impacts that the outbreak may have on New Zealand. These were discussed today at the EAG, and are attached for your information.

At this stage, the scenarios are stylised and high level. They will require further development with other agencies, in particular to continue to add detail on sectoral and regional impacts of the outbreak. Also, an important task is to ensure these macroeconomic scenarios are integrated with any public health scenarios that are being developed by the Ministry of Health. The Treasury will continue to progress this as part of cross-agency work.

The Treasury will also use these scenarios to anchor our ongoing advice about how to take a strategic approach to the Governments overall economic policy response. This will include an explanation of how incoming information and data will update our diagnosis of the situation. It will also suggest a framework for thinking about the right balance between targeted sectoral responses and broader fiscal and monetary policy

action as the situation emerges over coming weeks and months. We will provide this initial advice to you by the end of this week.

Next steps

We updated you on our view of the macroeconomic implications of COVID-19 on Friday 14 February 2020 (T2020/274 refers) and expect to provide you with our preliminary forecasts, incorporating COVID-19 impact, early next week. Advice from the Treasury on economic scenarios, trigger points and potential interventions will also be provided on Friday, 21 February 2020.

The Treasury, as the lead EAG agency, is developing an Economic Situation Report, which is intended to provide Ministers with a system view of the economic impact of COVID-19 and cross-government activity to address economic impacts. An initial draft outline of the economic situation report is attached for your information. This is an example only and is subject to agreement by other agencies. A completed version of the Economic Situation Report will be provided to relevant Ministers on Wednesday, 19 February.

Kosal Kong, Senior Analyst, Office of the Executive, s9(2)(k)
Elizabeth Gerard, Team Leader, Office of the Executive, s9(2)(k)

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Ad Hoc Cabinet Committee on COVID-19 Response (CVD) Briefing
4 March 2020

Notes:

- The following briefing is based on our understanding of the CVD agenda as at 1130am on 4 March 2020.

Items for CVD consideration (all oral items)

Situation Update

Prime Minister
Contact: Elizabeth Gerard

Description: a scene setter discussion on the public health response and where we are at

The most recent Economic Advisory Group's Cross-Agency Economic Situation Report is attached. You may wish to raise the key message from this report in the meeting as part of the scene setting:

- We are moving to a scenario where the potential economic impact is likely to be longer-lasting and New Zealand is likely to experience a period of slower growth for the remainder of 2020. This is based on New Zealand having its first confirmed case, the continued spread of the COVID-19 to other countries outside of mainland China, and the expectation that the outbreak will last longer.

- There is not yet evidence of impacts across the broader economy, though there are more anecdotes from specific sectors about the economic effects of the outbreak. There continues to be significant uncertainty and downside risk associated with the spread of the disease and the associated impact of containment measures (domestically and abroad) on travel and supply chains.

- Where deemed necessary, the approach to any interventions should continue to be proportionate and where possible be aligned with the Government's economic strategy (i.e. take a least regrets approach). Any intervention should take into account our close international partners and should avoid lock-in or setting precedents for interventions that cannot be extended or scaled up across the economy.

Public Information

Minister of Health
Contact: Elizabeth Gerard

Description: a discussion of the public information being provided at the border; in the digital space; what are we saying to employers

We have developed key messages regarding the impact of COVID-19 on the economy, which are attached. You may wish to draw on these in the meeting, and circulate to your colleagues to ensure consistent messaging from the Government on the economic impact of COVID-19.

Stand Down Periods

Minister for Social Development
Contact: Ashley Stuart

Description: We understand this will be a discussion on stand down periods for people requesting social assistance affected by COVID-19.

- s9(2)(f)(iv) s9(2)(f)(iv) However, they were supportive of it remaining on the welfare overhaul medium term work programme.

- We are unclear why this proposal requires such urgency to merit consideration ahead of the cross-agency advice on options for a COVID-19 response, particularly as these changes are unlikely to

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have a significant stimulatory impact (given its scale). In addition, we have equity concerns with the proposal being limited to a particular group of people and/or region.

- The Treasury was not consulted or informed of this paper. The Treasury **does not support** the paper seeking an agreement-in-principle, given the fiscal implications associated (approx. $26m p.a.). As the paper stands, it invites Minister Sepuloni to return with further details on how this would be implemented (including around funding). As such, we would support Ministers to invite Minister Sepuloni to return with a worked up proposal on a preferred option, but we do not think it merits an agreement-in-principle, given that Ministers have not yet seen the full range of potential responses.

- If Ministers do want to proceed, then we recommend inviting Minister Sepuloni to return with details of a **modified option two**, which removes initial income stand-downs temporarily for 12 months, with a planned review after 6 months.

Proposed Order in Council under the Health Act 1956

Minister of Health
Contact: Alex Rogers

Description: We understand that this discussion will provide information on the option of COVID-19 being a quarantinable disease

We have seen a draft paper on a proposal to amend the Health Act 1956 to add Covid-19 to the list of quarantinable infectious diseases. Doing so would grant the Government more powers around Covid-19, such as withhold aircraft and vessels with symptoms of concern and give more powers to require bodily samples for testing.

Such actions would restrict freedom of movement and limit a person's right to refuse medical treatment as granted by the Bill of Rights Act, but would improve New Zealand's ability to secure public health.

This step has previously been taken with conditions such as avian influenza and Middle East Respiratory Syndrome (MERS).

Treasury recommends you **support** this item.

Possible deployment of forestry workers to wilding conifer projects

Minister for Economic Development
Contact: George Wibberley

Description: We understand that this provides further information for Ministers on a proposal to deploy forestry workers affected by COVID-19 to conservation projects (CAB-20-MIN-0068 refers)

The Treasury has not had the opportunity to review the draft paper that this item discusses. Our previous advice on this proposal noted that it was not clear whether there is alignment between the regions where employees affected by COVID-19 are located and the locations of the activity proposed for ramp up.