



Pathways to recovery

**International students will
boost our living standards**



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Executive summary

In this report, KPMG Australia (KPMG) examines the impact of the COVID-19 pandemic on Australia's population and economy by modelling two scenarios – one where a vaccine is found within the next 12 months and another where a vaccine is not found in the next two years. The report goes on to estimate the benefits of increasing Australia's international student intake to help offset the economic losses caused by the COVID-19 pandemic.

In the 'no-vaccine' scenario, KPMG estimates the population in 2029-30 to be more than one million less than the baseline projection prepared by the Australian Bureau of Statistics (ABS) before the onset of COVID-19.¹ Instead of 29.12 million at the end of the current decade, KPMG projects the Australian population to be 28.04 million.

A lower-than-projected Australian population by 2029-30 would not of itself be a problem. But if lower rates of population growth were associated with missing out on younger, more highly skilled Australian migrants, then Australian living standards would be adversely affected.

KPMG's economic modelling suggests that in a 'no-vaccine' scenario, real GDP would be \$117 billion lower in 2029-30 on an ongoing basis than it would have been had COVID-19 not triggered a slowdown in immigration.

KPMG projects household disposable income, a better measure of material living standards than GDP, to be \$80 billion lower as a result of COVID-19's effect on immigration, or more than \$2,800 for every man, woman and child in Australia. In other words, in the absence of a vaccine within the next 12 months, Australians on

average are estimated to be more than \$2,800 worse off on an ongoing basis by the end of the decade from reduced immigration than they would have been if immigration had not been reduced by the COVID-19 pandemic.

The annual loss of GDP and household disposable income from reduced immigration is caused by two factors. The first is fewer working-age people supporting older Australians as immigration, which consists mainly of younger people, is curtailed by COVID-19-related international travel restrictions. The second is the loss of more highly productive migrants, since the immigration program is deliberately tilted towards skilled migrants including university students and graduates.

One way of cushioning the blow from a reduced intake of younger, skilled migrants caused by the COVID-19 international travel restrictions would be to make Australia more attractive to international students. In a post-COVID-19 world, where competition for international students will be even more intense, Australia will do well to hold onto its pre-existing levels of international students. But if it could do so, and achieve a meaningful increase in those numbers, the nation would be better off.

In responding to the economic crisis inflicted on Australia by the COVID-19 pandemic, KPMG proposes that the Australian government should seek to increase Net Overseas Migration (NOM) by attracting more higher education students. International students are younger than the Australian population as a whole and can be expected to be highly skilled as a result of their educational attainment before and after arriving here.

To retain and attract international students in a highly competitive global marketplace, the Australian government could consider making post-study work rights easier to obtain and last longer, add further permanent residency points to these post-study work rights and increase permanent residency points for students who undertake study in areas of skill shortage or in regional areas.

These measures combined would help solve the economic growth and living standards problem facing policy makers as we seek to emerge and recover from the COVID-19 pandemic.

¹ The baseline used in the scenario analysis is ABS's Series C rebased as at June 2019. Without the COVID-19 population shock, Australia's resident population was anticipated to reach 29.1 million by June 2030 under rebased Scenario C and this compared with 29.8 million for rebased Scenario B. For the purpose of this analysis we have assumed Series C birth rates and life expectancy rates and that COVID-19 will not have a material impact on natural population growth rates. Source ABS Catalogue 3222.0 [https://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/3222.0Media%20Release12017%20\(base\)%20-%20202066](https://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/3222.0Media%20Release12017%20(base)%20-%20202066)



KPMG's eight findings



Findings

Based on the analysis summarised in the subsequent sections of this report, KPMG has made eight findings, as set out below.

Finding 1

Under the 'vaccine' and 'no-vaccine' scenarios, Australia's population levels by June 2030 could be between 420,000 and 1,079,000 short of the original ABS projection of 29.12 million.

Finding 2

Under the 'no-vaccine' scenario, real GDP is projected to be almost \$100 billion lower than the baseline projection in 2029-30 and on an ongoing basis, even where no productivity loss is considered from the loss of younger, more skilled workers.

Finding 3

Where we assume that the 'lost' working-age population was 20 per cent more productive than the incumbent workforce, given that these workers were more likely to be highly skilled and younger, the negative impact on the economy is greater, with annual GDP from 2029-30 being \$17 billion lower.

Finding 4

Overall KPMG's economic modelling suggests that in a 'no-vaccine' scenario the time profile of real GDP would be 5.5 per cent lower on an ongoing basis from 2029-30 and beyond relative to the profile projected in the absence of COVID-19 triggering a slowdown in immigration. To put this in context, a 5.5 per cent reduction in real GDP in 2029-30 alone is equivalent to \$117 billion.

Finding 5

Under the 'no-vaccine' scenario, real household disposable income – a better measure of material living standards than GDP – is projected to be more than \$80 billion lower than the baseline projection in 2029-30 and on an ongoing basis, which is more than \$2,800 for every man, woman and child in Australia.

Finding 6

There are two options available to government to address the decline in population growth: option A) A no-policy approach of a gradual return to pre-COVID-19 ABS population growth rate assumptions with a reduction in overall population out to June 2030; and option B) An accelerated population growth strategy to offset some of the projected reduction in population levels due to COVID-19.

Finding 7

To attract international students in a highly competitive global marketplace, the Australian government could consider making post-study work rights easier and last longer, add further permanent residency points to these post-study work rights and increase permanent residency points to students who undertake study in areas of skill shortage or in regional areas.

Finding 8

These measures combined would help solve the population and growth dilemma facing policy makers and would address the drop in international enrolments. This policy option would boost the three 'Ps', population, participation and productivity, with the increase in participation and productivity strengthening the economy and raising the material living standards of Australians in a post-pandemic world.

Population, immigration and economic growth

Since the end of World War II, population growth has been a strong driver of Australia's economic growth. This has remained true in the 21st Century. From the end of the mining boom in 2012 to end-2019, population growth contributed two-thirds of Australia's economic growth.

The main source of population growth has been Net Overseas Migration (NOM),² contributing 240,000 people in 2019 compared with a natural increase of 143,000 people in the 12 months to June 2019.³

Using immigration only to boost population and through it, economic growth, does not of itself increase the living standards of resident Australians. The true benefit comes from concentrating the immigration program on younger, skilled people. This can include the humanitarian program, which typically involves younger, highly motivated and often highly skilled, refugees.

Australia's natural fertility rate is expected to fall in the near term owing to the weaker economic conditions and outlook associated with the COVID-19 pandemic. Australia's total fertility rate of 1.76 live births per woman is well below the accepted replacement rate of 2.1 live births.

As highlighted in the first and subsequent Intergenerational Reports, as a consequence of declining fertility rates the ratio of people aged 65+ to those in the age group 15-64 years has been rising and is set to continue rising. This is the age dependency problem, but because migrants are younger on average than Australians generally, an increase in NOM tends to rejuvenate the population.

Immigration not only freshens up the age profile of the population, it also adds skills to the economy, while benefiting society through cultural diversity. It can also create stronger business and trade ties with our main trading partners.

The augmentation of the Australian skills base through intakes of skilled migrants boosts productivity growth. The Intergenerational Reports reveal that productivity growth has been responsible for more than 80 per cent of the improvement in incomes of Australians over the last four decades. As Nobel Laureate, Professor Paul Krugman, famously observed, productivity growth isn't everything but in the long run it's almost everything.

Boosting Australia's immigration intake by making our country more attractive to international students has the double benefit of freshening up the age profile of our population and augmenting our skills base. Global competition for international students is intense. But with the right policies, Australia can cushion the economic blow from COVID-19 and raise living standards by attracting and welcoming more international students to our shores.

² The Australian Bureau of Statistics (ABS) defines Net Overseas Migration (NOM) as the net gain or loss of population through immigration (overseas migrant arrivals) to Australia and emigration (overseas migrant departures) from Australia.

³ Source ABS Catalogue 3412.0 <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/3412.0Main%20Features12018-19?open-document&tabname=Summary&prodno=3412.0&issue=2018-19&num=&view=>

International students and Australia's prosperity

International education activity arising from international students studying and living in Australia contributed around \$40 billion to the Australian economy in 2019. This places education as Australia's fourth largest export, after iron ore, coal and natural gas, and as Australia's largest services export.⁴

Less well known is the contribution these students bring to Australia through NOM and, therefore, resident population growth. As detailed in Chart 1, the recent drivers of NOM have been higher education students, visitors and skilled migration. Higher education is by far our greatest contributor to NOM.

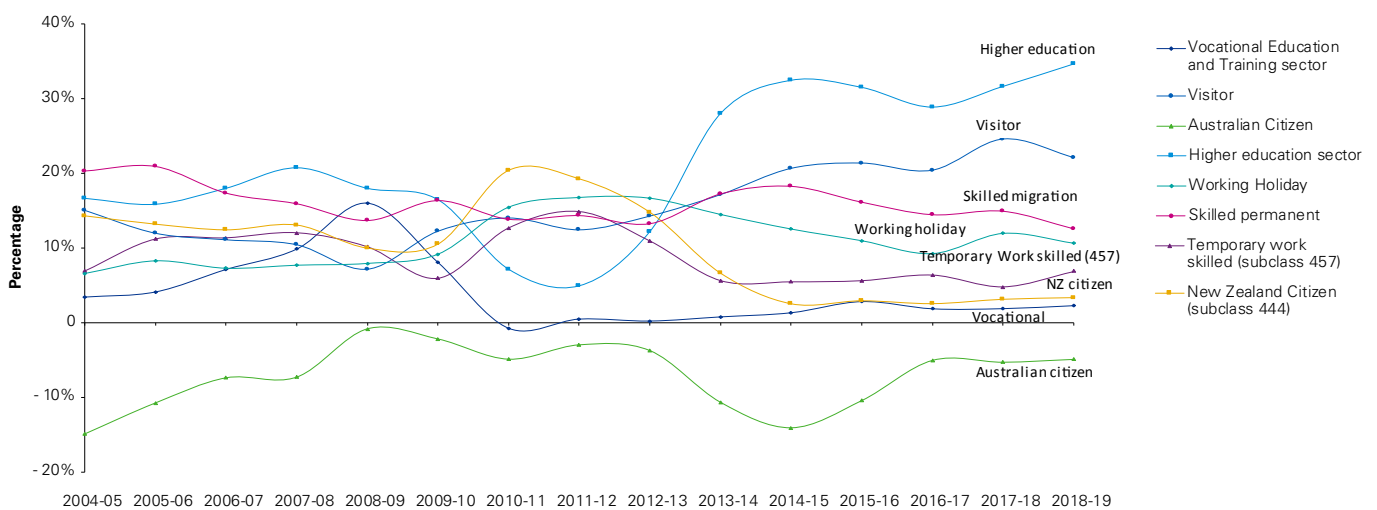
When international students reside in Australia there are two sequential shocks to consider. The first is a demand shock associated with expenditures by students. Additional international student intakes lead to extra university fees and services such as accommodation, food and domestic tourism.

The second shock relates to the supply side of the economy. Graduates are paid more over their lifetimes than the average worker, reflecting differentials in productivity. International students with a pathway to residency add to the supply of labour both in terms of headcount and average productivity.

Over the short term, losing international students due to COVID-19 border restrictions will have a negative impact on the Australian economy operating through the demand side on exports of goods and services. Over the longer term the potential loss of young, highly productive workers will have a negative impact on the economy through the supply side.

Chart 1

Compositional changes by major NOM groups, percentage of total NOM, 2004-05 to 2018-19



Source: ABS Catalogue 3412.0 <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3412.02018-19?OpenDocument>

⁴ DFAT trade statistics for the 2019 calendar year: accessed at: https://www.dfat.gov.au/sites/default/files/australias_goods_and_services_by_top_25_exports_2019.pdf

Australia's population post-pandemic

The Australian government is forecasting a sharp drop in NOM because of COVID-19 border closures and travel restrictions.

“On the 2018-19 year for net overseas migration, we’re expecting just over a 30 per cent fall in 2019-20, the current financial year. And in 2020-21, an 85 per cent fall-off those 2018-19 levels as well.”

Prime Minister, Scott Morrison, 1 May 2020

The government’s 23 July Economic and Fiscal Update confirmed the significant impact on NOM in 2019-20 and 2020-21.⁵ While it is broadly accepted that NOM⁶ will contract over the short term because of COVID-19 border closures and travel restrictions, the extent of the contraction over the longer term is uncertain. In addition, the Treasurer has confirmed that the fiscal estimates included in the Economic and Fiscal Update will need review following the further shut down that has occurred in Victoria. Treasury will seek to include an updated forecast over the forward estimates period in the October 2020 Budget.

There are also uncertainties in relation to the future configuration of NOM. For example, will the returning of the diaspora population to Australia boost NOM? The diaspora population holds Australian citizenship, or holds dual citizenship, and will return to Australia on an Australian passport.

Historically, there has been a net loss of Australian citizens; that is, Australian citizens ‘NOM-ing’ out (often referred to as the brain drain). There are no figures yet to show how this group is responding to COVID-19, but we might see this group ‘NOM-ing’ back in because Australia is considered a relatively safe haven.

As illustrated in Chart 1, following the Global Financial Crisis, there was a decline in the number of Australian citizens departing the country and an increase in citizens returning to Australia. While the net result in 2009 was still a slight ‘NOM-ing’ out of citizens, it could turn positive this time around as the diaspora population looks to home for safety.

Even before COVID-19, population projections were below the ABS medium outlook and for this reason this report uses the ABS low population projections.⁷ We then consider two population scenarios with alternative projections about the extent of the contraction, classified as: ‘vaccine’ and ‘no vaccine’.

⁵ The 23 July Economic and Fiscal Update expects NOM to fall from 232,000 in 2018-19 to 154,000 in 2019-20 and to just 31,000 in 2020-21. KPMG modelling uses a baseline NOM of 239,600 (sourced from ABS Cat 3412.0) and assumes a reduced projected resident population by a NOM shock that is not materially different to the estimates outlined in the Fiscal Update and are aligned to the assumption that there will be a 30 per cent fall in 2019-20, and in 2020-21, an 85 per cent fall-off those 2018-19.

⁶ NOM directly increases population not permanent migration. Changes in permanent migration policy levers are likely to affect NOM but not directly because about half of all permanent visas are granted to individuals already in Australia on temporary visas. In 2019-20, NOM was 239,600 and permanent migration was capped at 160,000. The federal government announced a migration policy shift in March 2019 to cut permanent migration from 190,000 to 160,000 for the next four years (2018-19 through to 2021-22). <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3412.02018-19?OpenDocument>

⁷ Refer to footnote 1

Scenario 1



Vaccine availability within 12 months

NOM recovers somewhat in 2021–22 before population growth rates either:

- revert to pre-COVID-19 population growth rate assumptions by 2022–23; or
- undergo accelerated rates of population growth to reach pre-COVID-19 population levels.

In this scenario, the COVID-19 shock causes NOM to fall by 72,000 in 2019-20 and by 204,000 in 2020-21, in line with Treasury's estimates.

Resuming pre-COVID-19 population projection growth rates following the initial shock is likely to push the resident population to 28.70 million as at June 2030 (Table 1). Under this scenario there are likely to be 420,000 fewer residents by mid-2030 compared with pre-COVID-19 projections.

Population growth rates could be accelerated so that Australia's population reaches 29.12 million as at mid-2030. This would require population growth rates to increase by an average of 0.18 percentage points over and above the baseline population growth rate between 2021-22 and 2029-30. These accelerated growth rates are plausible when compared with historic population growth rates.

Table 1: Vaccine scenario overview

 28,700,000

Projected population as at 30 June 2030

 420,000

Difference from pre-COVID-19 population level of 29.12 million by 30 June 2030

 1.17%

Average population growth rate with baseline growth rates (p.a.)

 1.35%

Accelerated average growth rate to attain targeted 2030 population (p.a.)

Source: KPMG Australia and ABS August 2020

Scenario 2



No vaccine

NOM starts to recover in 2024–25 before population growth rates either:

- return to pre-COVID-19 population growth rate assumptions in 2025-26; or
- undergo significant accelerated rates of population growth to reach pre-COVID-19 population levels.

In this scenario, the COVID-19 shock is extended. NOM initially falls by 72,000 in 2019-20 and annual NOM from 2020-21 through to 2023-24 is reduced by 204,000 each year.

If baseline population growth rates kick in immediately following the extended downturn, then Australia's population is likely to reach 28.04 million by June 2030, which is 1.08 million below the ABS population projection of 29.12 million (Table 2).

Table 2: No-vaccine scenario overview

 28,040,000

Projected population as at 30 June 2030

 1,079,000

Difference from pre-COVID-19 population level of 29.12 million by 30 June 2030

 1.08%

Average population growth rate with baseline growth rates (p.a.)

 1.84%

Accelerated average growth rate to attain targeted 2030 population (p.a.)

Source: KPMG Australia and ABS August 2020

Slower population growth hits economic growth

To summarise, as a consequence of COVID-19, the Commonwealth Government is expecting Australia's population to grow at only 0.6 per cent this year, the slowest rate since 1917. This is mainly due to lower NOM.

This report takes into consideration the immediate impact on population growth of the pandemic and finds that population levels by June 2030 could be 420,000 short of the original ABS projection of 29.12 million under a 'vaccine' scenario and a much deeper impact of almost 1.08 million below the ABS baseline projection in a 'no-vaccine' scenario.

As illustrated in Table 3, in the 'no-vaccine' scenario, the COVID-19 international travel restrictions are estimated to reduce Australia's GDP below what it otherwise would have been by \$98.6 billion in 2029-30 and on an ongoing basis, and household disposable income by \$67.5 billion.

This assumes the average productivity of the 'lost' population from reduced NOM is the same as that of the incumbent population. If instead it is assumed that the average productivity of the 'lost' population is 20 per cent greater than that of the incumbent population, the hit to GDP in 2029-30 and thereafter rises to \$116.7 billion and to household disposable income it is \$80.1 billion. This loss of household disposable income is equivalent to \$2,856 for every man, woman and child in Australia.

Table 3

Impacts on GDP and household disposable income of COVID-19 travel restrictions (\$2019 million)

(\$2019 million)			
Population scenarios			
2029-30	Vaccine	No vaccine	
GDP	-38,248	-98,598	Per capita
Household disposable income	-26,170	-67,491	-\$2,407
Productivity scenarios			
2029-30	Vaccine	No vaccine	
GDP	-7,048	-18,061	
Household disposable income	-4,915	-12,595	-\$449
Population & productivity scenarios			
2029-30	Vaccine	No vaccine	
GDP	-45,295	-116,659	
Household disposable income	-31,085	-80,085	-\$2,856

Source: KPMG Australia August 2020

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The impact on population comes at a time when Australia will have a huge debt to pay back post-COVID-19, assuming we do reach a time we can say 'post' COVID-19. Growing the economy will be critical if we are to chart a course back to recovery. The latest forecasts in the Economic and Fiscal Update released on 23 July 2020 are for GDP to fall 2.5 per cent in 2020-21 after contracting by 0.25 per cent in 2019-20. These effects are expected to worsen as a result of the current Victorian lockdowns.

The underlying cash balance is estimated to have been -\$85.8 billion in 2019-20 and is forecast to fall further to -\$184.5 billion in 2020-21. Net debt is expected to balloon from \$373 billion in 2018-19, or 19.2 per cent of GDP, to \$677 billion in 2020-21, or 35.7 per cent of GDP.

The fiscal measures have been a much needed and proportionate response, saving many lives and livelihoods, but have created a massive challenge nevertheless.

The government has flagged that austerity is not how we will pay the debt back. Instead, with the benefit of low interest rates, the intention is to return to growth as soon as possible, increasing the economy's capacity to pay down the debt. In order to return to desired growth levels in as short a time as is reasonably possible, Australia would need to have the right sort of population growth at higher than the previously expected levels, which can only come from NOM.

Put simply, on current social trends and policy settings, and taking into account Australia's debt position, increased population growth through NOM is an essential part of Australia's economic recovery.

The optimal way to increase both NOM and GDP is to increase the international student intake, because:

- They pay fees to our institutions and spend money in the economy while studying;
- Some stay on for a while through post-study work rights, continuing to spend and pay taxes; and
- Others stay on permanently, spending, reducing the age dependency ratio and strengthening the nation's skills base.

Case Study

What if we increase our higher education NOM component?

KPMG estimates that if Australia were to add an extra 40,000 young, skilled migrants to the population in the 'no-vaccine' scenario, GDP in 2029-30 and thereafter would be improved by \$4.7 billion and household disposable income by \$3.2 billion on an ongoing basis.

Increasing our intake of international students and providing incentives for them to remain in Australia after completing their studies through pathways to residency makes good economic sense.

Competing for international students

There is little doubt we are in uncharted geopolitical territory, with a speed, depth and breadth of change we have not seen in our lifetimes. These rapidly shifting external geopolitical dynamics mean we need to understand what is happening with both the push and pull factors behind international students choosing, or not choosing, to study in Australia.

The standard drivers for students choosing to study in other countries have tended to be a combination of tangible and intangible factors. Rising GDP levels at home mean that people can afford the costs of study overseas. A rising middle class may increasingly desire the prestige of an international education. The ability to be immersed in foreign culture and language may be seen as desirable professional and personal attributes. Demographic shifts, namely a growing youth population, have meant there are simply greater numbers of people who may be interested in choosing an international education option.

At the same time, there may be perceptions that the locally available education offering is insufficient. Domestic social, political and economic instability may make opportunities for residency in other countries an important consideration. A tight job market may increase the incentive to differentiate oneself from one's peers with an overseas education. It may also mean students are looking for an opportunity to participate in practical and meaningful work experience programs to gain a competitive edge. A highly competitive university entrance system may mean that someone who doesn't make it to a top-tier university at home can explore options internationally.

Australia has been well-positioned for many years to take advantage of these drivers of international education. Between 2015 and 2018, the Australian international education market entered a period of growth that exceeded expectations. One key reason for that growth was the emergence of China as a clear leader in terms of total enrolments.

Past performance is an important indicator of future trends but cannot be relied on as a predictor. Geopolitical uncertainty is affecting most, if not all, the drivers of choice around international education. Rising nationalism around the world, Australia's position in the US-China strategic competition, the rapid transformation in technological capabilities, and even the impact of climate change on human movement, migration, access to resources, and political unrest, are all changing the landscape. 'Black swan' events such as the Global Financial Crisis in 2007-08, and COVID-19, instantly upend the best-laid plans. Many geopolitical factors suggest that a pathway to residency in the destination location may become increasingly relevant in students' choices.

Will the Australian education market post-COVID-19 return to how it was before? It is highly unlikely. Both the push and the pull factors for Chinese students are changing such that we will not see the same numbers in the future. Competition from markets such as the United Kingdom and Canada is becoming tougher.

Sentiment is everything. International students want to know they will be welcome and safe. These views can shift on a dime depending on the broader geopolitical environment and country-to-country relations.

It is unwise for Australia to rely too much on any market for any export, and international education is no exception. The Australian government is keenly aware of this and must seriously consider changes to the policy environment to ensure Australia remains competitive on a global basis, including ensuring our education offering meets both push and pull motivating factors.

While there are many considerations for international students when choosing a higher education provider to complete their studies, high on many student preference lists are access to work rights and clear pathways to residency. This preference is clearly evident in the number of students deciding to live in Australia following the completion of their studies.

In February 2010, one of the Australian government's key responses to the challenges emerging from international student education in Australia was to introduce reforms to the skilled migration program which, under the Howard government, had seen a large number of temporary migrants transition to residency through the migration program.⁸ The Rudd and Gillard governments responded by calling for the attainment of overseas student visas to be decoupled from other migration outcomes, such as permanent residency, and sought to make access to permanent migration contingent upon the achievement of concrete employment outcomes.

While the policy response was proportionate at the time, there is now a clear case for these measures to be reviewed given the current economic crisis.

Leveraging the international student sector to contribute to economic recovery is not a new tool for Australia's policy makers. Policy during the Global Financial Crisis leveraged the skills of international students to fill gaps in the Australian economy and help secure a recovery roadmap.⁹ In addition, in response to the COVID-19 pandemic and China's introduction of a broad national security law on Hong Kong, the Morrison government announced new measures for students, temporary graduates and skilled workers from Hong Kong who want to live, work and study in Australia¹⁰ (see Case Study).

A similar approach, and the policy response implemented during the Global Financial Crisis, could be used as a strategy to increase overseas student numbers in Australia post-COVID-19.

A combination of measures could be adopted:

- make post-study work rights easier and last longer;
- add further permanent residency points to those post-study work rights;
- add even further permanent residency points where both the course and post-study work rights are in an area of skill shortage outlined in updated skills lists; and
- Introduce an accelerated pathway to residency program for regional students based on updated skills lists.

Using Australia's international higher education system as a pathway to residency has the advantages of selecting younger, highly skilled migrants who have already had the experience of living in Australia during their studies.

Case Study

Hong Kong student visa changes

The Australian government has announced that Hong Kong students will be eligible for a five-year graduate visa from the conclusion of their studies, with a pathway to permanent residency at the end of that period. In addition, future Hong Kong applicants for temporary skilled visas will be provided with a five-year visa, based on meeting the updated skills lists and labour market testing requirements.

Existing arrangements will continue to apply for those applicants who study and work in regional areas to help address skills shortages, with pathways to permanent residency after three years.

There are almost 10,000 existing temporary skilled, temporary graduate and student visa holders in Australia who will be eligible for these special arrangements, with a further 2,500 outside Australia and 1,250 applications on hand.

⁸ https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1516/OverseasStudents

⁹ https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1516/OverseasStudents#_Toc427230085

¹⁰ <https://www.pm.gov.au/media/hong-kong>

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