

The NSW BUDGET ²⁰²⁰₂₀₂₁

HALF-YEARLY REVIEW



Quiet confidence, with a big job still ahead.

That's the central message of the 2020-21 Budget Half-Yearly Review — an update on our State's economic and fiscal position since the Budget last November.

It was only three months ago that the 2020-21 Budget was handed down, delayed by the dual health and economic crises that have rocked the globe. It won't be long until the 2021-22 Budget is ready — just four months from now. So why the need for a Half-Yearly Review?

The main reason is that the local, national and global economic and fiscal conditions remain extremely and unusually volatile. Some nations have spent recent months dealing with crippling second and third waves, even as they move to quickly roll out vaccines.

Here in Australia, we have been fortunate to enjoy a far greater degree of stability, with the virus very much under control relative to other nations. Yet, as the Northern Beaches scare over Christmas and recent snap lockdowns in Queensland, Western Australia and Victoria make clear, the road to recovery will be bumpy.

In NSW, we have worked hard to maintain a steady hand, carefully balancing the health, social and economic consequences of every decision we make to give the people and businesses of our State the stability and confidence that will enable them to rebound.

Recovery is no small task. The damage wrought by the COVID-19 crisis was severe. Australia suffered its first recession in almost 30 years. At the peak of national restrictions in the second quarter of last year, around 270,000 people in our State had been put out of work. Monthly business confidence dropped to its lowest levels on record.

Our \$29 billion health, economic and social response dovetailed with vital Commonwealth Government support to minimise the damage, keep people in jobs and businesses in business. That support, combined with NSW Health's outstanding success in keeping the virus at bay, laid the foundations for a strong recovery — even if it was always going to be a long road back.

After a tough year, this Half-Yearly Review contains some much-needed and hard-earned good news.

On almost every fiscal and economic measure, it appears NSW is recovering better and more quickly than expected. The unemployment rate has improved faster than forecast at Budget, jobs are being recovered more rapidly and the pandemic has triggered a shift towards more flexible ways of working, which will remain key to the jobs recovery.

Economic growth (as measured by state final demand) is also outstripping expectations from only a few months ago, as consumer and business confidence rebound into robustly positive territory — a phenomenal turnaround from the harrowing lows of last year.

The fiscal position remains severely affected by the pandemic. The NSW Government will continue to focus on fiscal sustainability. There are early signs that the fiscal recovery may not take as long as previously thought, but these gains are fragile. Much depends on the continued successful containment of the pandemic.

In all, the progress so far has been very encouraging — a testament to our people's resilience and unshakeable determination to get the NSW economic motor humming again.

That determination will be aided by our unprecedented economic recovery program, with help for those who need it most, a mammoth \$107.2 billion infrastructure pipeline and additional support forthcoming for small businesses hit by the Northern Beaches outbreak.

With consultation continuing on our property tax reform proposal, the Government's broad-ranging reform agenda is setting in motion the next big drivers of economic growth and prosperity for current and future generations.

In addition, it's a strong platform for recovery, and the welcome news that the vaccine rollout has begun earlier this week will no doubt shift things up another gear. What's important is that we do not take any of it for granted.

For all the good we have achieved as a community, many people and businesses are still hurting and there is much ground yet to be recovered.

Entire industries like international tourism and education face extreme challenges and critical economic drivers such as international travel and migration remain in a state of unprecedented uncertainty.

The signs are good and NSW is in an enviable position, but this is only the beginning. We must continue to adapt and adjust to new challenges as they arise.

For our part, the NSW Government will continue to do whatever it takes to keep the community safe while supporting an open, thriving economy, so everyone in our state can get back on their feet and back to building a better NSW now and into the future.

Dominic Perrottet
NSW Treasurer

25 February 2021

An economy on the rebound

The State's initial recovery from the impact of COVID-19 has exceeded expectations, largely due to the NSW Government's success in keeping the economy open by containing the virus. The economy is on track to recover to pre-COVID levels six months sooner than expected and economic growth is forecast to improve to 2¾ per cent by 2023-24. The unemployment rate reached 7.2 per cent in July 2020 but has now fallen back towards pre-pandemic levels to be 6.0 per cent in January. These are early signs economic recovery is underway, but the outlook remains uncertain.



The economy is forecast to grow by **2¾ PER CENT** in 2021-22



More than **80 PER CENT** of the employment lost during COVID-19 has been regained



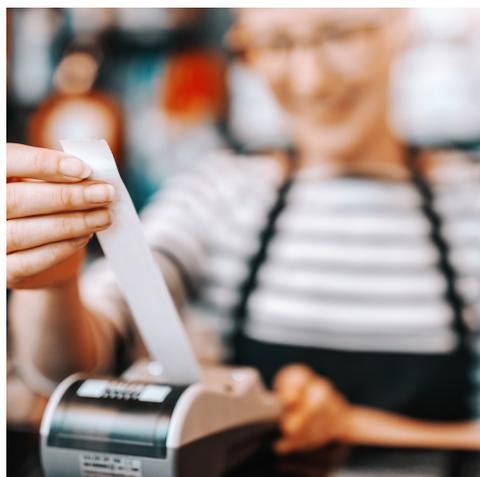
Unemployment rate eased to **6.0 PER CENT** in January 2021

EARLY SIGNS OF RECOVERY

This Half-Yearly Review continues the NSW Government's economic strategy, set out in the 2020-21 Budget, to recover from the devastating effects of COVID-19 — focusing on job creation while laying the foundations for an even stronger economy in the long term.

The NSW Government's approach, including world-leading testing and contact tracing, a sensible approach to restrictions and targeted stimulus support measures, has enabled the State to avoid the health and economic catastrophe experienced in many countries across the world.

- The size of the NSW economy is now expected to be broadly unchanged in 2020-21. The economy is forecast to grow by **2¾ per cent** in 2021-22.
- Successful management of the virus has allowed the easing of containment measures more quickly than expected at the time of the 2020-21 Budget. Consequently, local economic activity has rebounded by a solid **6.8 per cent** in the September quarter.
- The labour market too has fared much better than previously predicted — with a **6.0 per cent** unemployment rate at Jan 2021 and reducing by the end of the forecast horizon to **5.0 per cent** by June 2024.



OUTLOOK REMAINS UNCERTAIN

While the outlook has improved, ongoing risks remain, with the potential to materially impact the economic and fiscal outlook of the State, including:

- new strains of the virus and unforeseen challenges affecting vaccine rollouts;
- a number of Commonwealth stimulus measures, put in place at the height of the pandemic, are scheduled to be wound back; and
- escalation of global trade tensions.

At the same time, more favourable outcomes are also a real possibility, including the potential for a faster recovery in household spending driven by accumulated savings and the continued recovery of consumer confidence.





SAFEGUARDING THE STATE

NSW Health is working closely with the Australian Government to plan and implement a safe and effective COVID-19 vaccination program in NSW, underpinned by a strong public health system. Initially, vaccines will be distributed primarily through State-run vaccination clinics, with later stages of the program also being delivered through primary care settings such as GPs and pharmacies.

On Monday 22 February, the rollout of the Pfizer vaccine began, with frontline workers amongst the first to receive the vaccine. The rollout for the general population is due to commence in mid-2021. In NSW, the first people to receive a COVID-19 vaccine will include:

- healthcare workers working in locations with a higher risk of exposure to, and transmission of COVID-19, such as emergency departments, COVID-19 testing clinics, and COVID-19 wards;
- staff working in designated quarantine facilities; and
- residents and staff of residential aged and disability care facilities.

POST-PANDEMIC EMPLOYMENT TRENDS

Through January 2021, NSW has recovered over **80 per cent** (220,183) of aggregate jobs lost during the peak of the pandemic — and there are distinct differences in the job market.

- More women have entered the labour force, which allows more diversity of thinking and skills in workplaces.
- More older workers have been encouraged to remain in the workforce, with some choosing to delay retirement in favour of financial stability.
- There has also been a shift to a greater part-time share of employment, as employers and employees transition into recovery, adjusting and adapting to a post-pandemic environment.

REBUILDING BUSINESS RESILIENCE

The NSW Government is continuing to deliver its record stimulus spending to support economic recovery and job creation, and boost confidence in the short term. Meanwhile, reform initiatives are laying the foundations for an even stronger economy in the long term.

- More than **90,000** grants have been paid to small businesses affected by COVID-19.
- Over **10,000** businesses have been supported through the Business Connect program.
- A **\$1,500** digital voucher scheme (totalling up to \$472 million) to support small businesses with the cost of government fees and charges will roll out in April 2021.
- Stage one of the **\$500 million** Dine & Discover program is already supporting local businesses in The Rocks, Broken Hill, Northern Beaches, Sydney CBD and Bega Valley, with the State-wide rollout commencing in March 2021.

Since November 2020, CBD revitalisation initiatives have worked to enliven Sydney, including more than 90 activations and events as part of a **\$20 million** partnership with City of Sydney, as well as other grant programs.

SMALL BUSINESS IN THE NORTHERN BEACHES

The NSW Government has announced a package of measures for small businesses in the Northern Beaches affected by the COVID-19 lockdown. The package includes:

- **\$5,000** Hardship Grants available to small businesses that experienced at least a 50 per cent decline in turnover;
- **\$3,000** Hardship Grants available to small businesses that experienced at least a 30 per cent decline in turnover; and
- improved access to existing small business support, including mental health support, mediation services and the Business Connect program.



Support grants for small businesses more than

\$640 MILLION



\$500 MILLION

Dine & Discover stimulus program. Residents receive

\$100 VOUCHERS

(four x \$25)



\$50 MILLION

funding for the arts Rescue and Restart package



The signs are good and NSW is in an enviable position, but this is only the beginning. We must continue to adapt and adjust to new challenges as they arise.

– Dominic Perrottet, NSW Treasurer

THE TIME FOR REFORM IS NOW

The pandemic has demonstrated the NSW Government's ability to cut red tape and streamline processes to serve its people, businesses and communities, and reform initiatives have been accelerated to lay the foundations for an even stronger economy in the long term. These include:

- simplifying the planning system, through the NSW Planning Reform Action Plan, to reduce assessment times for proposals and improve customer experience;
- allowing supermarkets and pharmacies to open around the clock, licensed venues to sell takeaway and home delivery alcohol, increased flexibility for the operation of home businesses during the pandemic and trialling streamlined approval for outdoor dining;
- flexibility for digital solutions during the pandemic where paper based compliance was previously required, such as paperless prescriptions and electronic meeting, voting and execution of documents;
- reducing red tape involved with occupational licensees moving to new job opportunities interstate;
- fostering longer-term labour force efficiency and flexibility by establishing a Trades Skills Pathways Centre to introduce new pathways into trades, particularly for mature workers and women; and
- establishing the NSW Planning Concierge to help potential investors in the State to navigate the planning system, and overcome barriers and complexities without compromising sound planning decisions.

BUYING IN NSW, BUILDING A FUTURE

To enable more people in NSW to purchase their own home, with more freedom to choose the right home for every stage of life, the NSW Government is considering a once-in-a-generation change to the State's property tax system. The proposal would offer property buyers the choice between paying stamp duty up front, or a much smaller annual property tax instead. Potential benefits include:

- **savings:** giving property buyers the option of reducing their up-front costs by eliminating stamp duty, reducing the time to save a deposit and delivering household savings of over **\$20,000** in the first four years (for the median Sydney sales price of \$846,000).
- **greater mobility:** affording people the freedom to buy in locations which suit their jobs and lifestyle.

Since the public consultation started on 17 November 2020, more than **16,500** people have engaged through the Have Your Say website about this reform.

SYDNEY'S 24-HOUR ECONOMY

Great global cities are 24-hour cities. The NSW Government's 24-Hour Economy Strategy aims to lift Sydney's global profile as a vibrant, safe, accessible city that's a great place to live, work and play — day and night. With a 24-hour Economy Commissioner to coordinate its implementation, the Strategy will drive employment opportunities and bring visitors and locals the best of Sydney.



\$34,000 —

amount stamp duty adds to the upfront cost of buying the average NSW home



Proposed property tax reforms could inject

\$11 BILLION

(over four years) into the economy



More than

16,500

people have engaged through public consultation