

Challenger

Big spending budget to create jobs



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By Chris Plater, Chief Executive & Chief Investment Officer, Challenger Life

The Federal Government last night outlined a big spending budget, with almost \$50 billion in tax relief for low and middle-income earners, a record deficit this current financial year and new investment allowances for 99% of Australian businesses.

It was a budget designed to kickstart the economy, and the Government hopes to create 950,000 new jobs during the next four years.

New measures announced last night amount to almost \$100 billion and the Government is forecasting a budget deficit this financial year of \$213.7 billion, before declining to \$66.9 billion by 2023-24.

Treasurer Josh Frydenberg said the sharp increase in debt levels was a heavy burden, but necessary to deal with “the greatest responsibility of our time”. He positioned the Budget as a shift from defending the economy during the pandemic, to moving into a rebuilding phase.

The Government has forecast the economy to contract by 3.75% this calendar year, and 1.50% this fiscal year. Unemployment is expected to peak at 8%. During the 2022 fiscal year, Treasury forecasts economic growth of 4.75% and a drop in the unemployment rate to 6.5% by the June quarter of 2022.

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Key economic parameters

	Financial year 2021	Financial year 2022
Economic growth (%)	-1.5	+4.75
Unemployment rate (%)	7.25	6.50
Inflation rate (%)	1.75	1.50
Budget deficit (\$b)	213.7	112.0

Mr Frydenberg said the economic and fiscal strategy set out a path to grow the economy, boost consumer and business confidence, and create jobs. Once the recovery has taken hold and the unemployment rate is on its way back to pre COVID-19 levels, the Government will shift its focus to stabilising net debt.

Net debt will increase to \$703 billion, or 36% of gross domestic product this year, and peak at \$966 billion in June 2024. Gross debt will hit \$1.138 trillion by 2024.

The Government said it will change legislation so that new super accounts will no longer be created every time a worker changes jobs. Instead, the employee will take their super account with them to their new job. The Government said superannuation members were paying \$450 million a year in unnecessary fees as a result of 6 million multiple accounts. The Government will also establish an online comparison tool known as YourSuper.

Other major policy changes include:

- bringing forward already legislated income tax cuts, to be backdated to 1 July 2020, that will benefit low and middle-income earners;
- businesses with turnover of up to \$5 billion will be able to write-off the full value of eligible assets, effective immediately;
- a new JobMaker hiring credit, available for employers who employ people on JobSeeker aged between 16 and 35 years of age;
- an additional \$1.2 billion to create 100,000 new apprenticeships and 50,000 places for higher education short courses in agriculture, health, IT, science and teaching;
- measures to support women in the workforce, first home buyers, more money for the national disability insurance scheme and the health sector, and extra payments to pensioners;
- money for infrastructure, cyber security and regional Australia;
- an extra \$1.3 billion for the manufacturing sector and \$1.9 billion to support low emissions and renewable technologies; and
- extra funding for the CSIRO and universities.

Mr Frydenberg said the road to recovery would be hard, but there was hope.

For more information, head to budget.gov.au

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