

FISCAL OUTLOOK

The Government's delivery of its fiscal strategy has continued to sustain the budget position, ensuring that Australia is on track to return the Budget to surplus in 2012-13.

The forecast underlying cash deficit in 2010-11 is expected to fall slightly to \$40.4 billion (or 2.8 per cent of GDP); while preliminary estimates indicate that the underlying cash deficit in 2009-10 will be around \$55 billion (or 4.2 per cent of GDP), approximately \$2 billion lower than previously forecast. The final results for 2009-10 will be determined following the finalisation of audit cleared financial statements and will be published in the 2009-10 Final Budget Outcome by 30 September 2010.

Consistent with the deficit exit strategy, real payments growth has been kept below 2 per cent in the years that the economy is expected to grow above trend (Table 4).

Table 4: Delivering the 2 per cent cap on spending

	2010-11(a)	2011-12	2012-13	2013-14
Real payment growth	1.4	-1.1	1.5	1.8

(a) Real payment growth in 2010-11 has been calculated using preliminary data for 2009-10 pending the preparation of audit cleared financial statements for government agencies. Final data for 2009-10 will be published in the 2009-10 Final Budget Outcome.

Policy decisions taken since the 2010-11 Budget largely reflect the impact of changes to the *Stronger, Fairer, Simpler* tax reform package. The net impact of these policy changes, excluding parameter variations, is \$5.7 billion over the forward estimates (including \$7.5 billion from changes to the resource tax arrangements).

However, parameter variations since the 2010-11 Budget increase revenue raised under the new framework by \$6 billion. This means that the Government's tax reform package remains fully funded over the forward estimates period.

The Government has continued to reprioritise expenditure and has fully offset the impact of all other policy decisions taken since the 2010-11 Budget. Further details on policy decisions are set out in Appendix B.

Since the 2010-11 Budget, parameter and other variations have led to taxation receipt estimates being revised up by around \$310 million in 2010-11 and around \$7.8 billion over the four years to 2013-14. A stronger outlook for commodity prices is reflected in higher than otherwise taxes on resource rents and company profits. This is offset in part by downward revisions in consumption taxes associated with a weaker consumption outlook.

Parameter and other variations since the 2010-11 Budget have reduced payments by around \$177 million in 2010-11 and by around \$3.1 billion over the four years to 2013-14. These variations largely reflect a reduction in expected public debt interest

costs and a reduction in GST payments to the States and Territories, consistent with lower GST collections.

Table 5 provides a reconciliation of the variations in the underlying cash balance estimates.

Table 5: Reconciliation of 2010-11 Budget and ES underlying cash balance estimates

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
2010-11 Budget underlying cash balance(a)	-40,756	-13,045	1,016	5,432
Per cent of GDP	-2.9	-0.9	0.1	0.3
Changes from 2010-11 Budget to ES				
Effect of policy decisions(b)	-132	196	-310	-5,377
Effect of parameter and other variations(c)	538	2,808	2,428	4,748
Total variations	405	3,004	2,118	-629
ES underlying cash balance(a)	-40,351	-10,041	3,134	4,803
Per cent of GDP	-2.8	-0.7	0.2	0.3

(a) Excludes expected Future Fund earnings.

(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.

(c) Includes contingency reserve offsets to policy decisions.

Table 6 provides a reconciliation of the fiscal balance estimates.

Table 6: Reconciliation of 2010-11 Budget and ES fiscal balance estimates^(a)

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
2010-11 Budget fiscal balance	-39,598	-12,093	1,960	6,325
Per cent of GDP	-2.8	-0.8	0.1	0.4
Changes from 2010-11 Budget to ES				
Effect of policy decisions(b)				
Revenue	-3	-10	-901	-5,950
Expenses	27	-735	-654	-625
Net capital investment	100	0	0	0
Total policy decisions impact on fiscal balance	-130	725	-247	-5,325
Effect of parameter and other variations(c)				
Revenue	267	1,949	1,629	3,891
Expenses	-775	-1,207	-1,583	-1,643
Net capital investment	269	184	190	190
Total parameter and other variations impact on fiscal balance	773	2,973	3,022	5,344
ES fiscal balance	-38,955	-8,395	4,735	6,345
Per cent of GDP	-2.7	-0.6	0.3	0.4

(a) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.

(c) Includes contingency reserve offsets to policy decisions.

Improvements in the budget position have further reduced the Government's forecast net debt from 2011-12 onwards. Net debt is now expected to peak at 6.0 per cent of GDP in 2011-12, compared to the previous forecast of 6.1 per cent of GDP in 2011-12, and fall to 5.3 per cent by the end of the forward estimates.

Table 7: Australian Government general government sector net financial worth, net worth, net debt and net interest payments

	Estimates		Projections	
	2010-11	2011-12	2012-13	2013-14
	\$b	\$b	\$b	\$b
Financial assets	219.7	225.2	233.7	238.0
Non-financial assets	104.8	108.9	112.2	114.9
Total assets	324.5	334.2	345.9	353.0
Total liabilities	386.3	401.6	406.6	405.7
Net worth	-61.9	-67.4	-60.7	-52.7
Net financial worth(a)	-166.7	-176.4	-172.9	-167.6
Per cent of GDP	-11.8	-11.8	-11.0	-10.1
Net debt(b)	80.8	89.2	89.7	87.0
Per cent of GDP	5.7	6.0	5.7	5.3
Net interest payments	4.2	5.3	5.6	5.3
Per cent of GDP	0.3	0.4	0.4	0.3

(a) Net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets.

(b) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

The improved net debt projections take into account provisions made in the 2010-11 Budget for the roll-out of the National Broadband Network (NBN). The provisions totalled \$18.3 billion over the forward estimates for the NBN based on the recommendations of the NBN Implementation Study (including \$18.1 billion in equity). The exact timing and quantum of funding for the NBN will be determined in the Government's response to the Implementation Study and following settlement of the Definitive Agreements between NBN Co and Telstra.

MEDIUM-TERM FISCAL PROJECTIONS

Under the Government's fiscal strategy, the Budget is currently projected to return to surplus in 2012-13 and remain in a surplus position for the remainder of the medium-term (Chart 6). Net debt is also projected to return to zero in 2018-19 (Chart 7).

Medium-term fiscal projections

Chart 6: Underlying cash balance

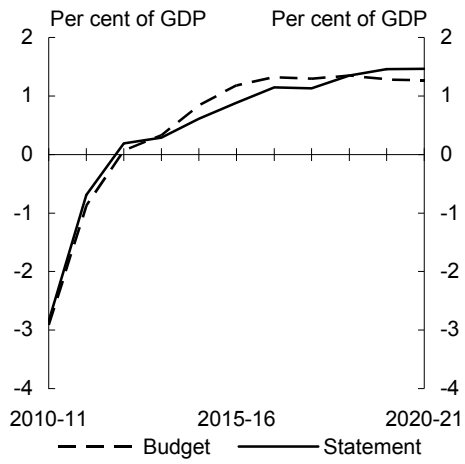


Chart 7: Net debt

