

FISCAL OUTLOOK

The Government has continued to implement sound fiscal policy. In the face of lower terms of trade, lower expected nominal GDP, and further write-downs in tax receipts, the Government remains committed to supporting jobs and growth in the short term while keeping the budget on track to return to a surplus of \$4.0 billion in 2016-17.

The Government's medium-term fiscal strategy guided Australia's successful response to the global financial crisis and provides the basis for the Government's determination to strike the right balance between supporting the economy in transition and the return to surplus.

Consistent with this strategy, the Government delivered its fiscal stimulus at the height of the global financial crisis and committed to return to surplus as the economy recovered. This stimulus prevented a recession in Australia and saved up to 210,000 jobs. In the current situation, short term support for the economy while remaining on track to return to surplus over the forward estimates is the appropriate fiscal policy response given Australia's current economic outlook.

G20 Finance Ministers and Central Bank Governors recently affirmed jobs and growth as global priorities in the current economic circumstances. These are priorities for the Government, and have influenced the rate of fiscal consolidation reflected in this Economic Statement. The meeting also agreed on the importance of governments adopting a credible fiscal strategy that is flexible to economic circumstances. This approach to fiscal strategy has guided the Government. It is supported by the international consensus among groups such as the G20 and IMF that fiscal consolidation is important, but it should be carefully managed to suit economic conditions.

Since the Budget, lower terms of trade and weaker than expected wages growth — and hence weaker nominal GDP growth — have led to further write downs in tax receipts. Lower wages growth has resulted in downward revisions to individuals' income tax receipts. Falling commodity prices have resulted in a weakened outlook for company tax and the minerals resource rent tax. Capital gains tax receipts are also expected to be weaker.

With the unemployment rate expected to be higher in 2013-14 and 2014-15, the Government has exercised restraint in a way that does not put Australia's growth and employment at risk by making drastic cuts in the near term. The majority of the revenue write-downs have been passed through to the budget bottom line to support growth in the short term. Almost all of the deterioration in the budget balance in 2013-14 and 2014-15 reflects variations in receipts and payments rather than Government decisions.

This approach is consistent with the Government's fiscal strategy, and the Government has found the savings necessary to put the budget on track to surplus by 2016-17. To ensure that unemployment remains relatively low, that households and businesses are not hurt by excessive cuts to spending and services, and that the transition away from the mining investment boom is as smooth as possible, it would not be prudent to offset the entire fall in revenues since the Budget in the near term.

The Government is still on track to return to surplus at the end of the forward estimates. Since the Budget, the Government has made \$17.4 billion of responsible savings decisions, which have made a significant contribution to offsetting the impact of revenue write-downs in 2015-16 and 2016-17 (Table 5). This return to surplus is achieved with lower terms of trade, which means that, compared to the Budget, the structural position of the budget has been improved at the end of the forward estimates.

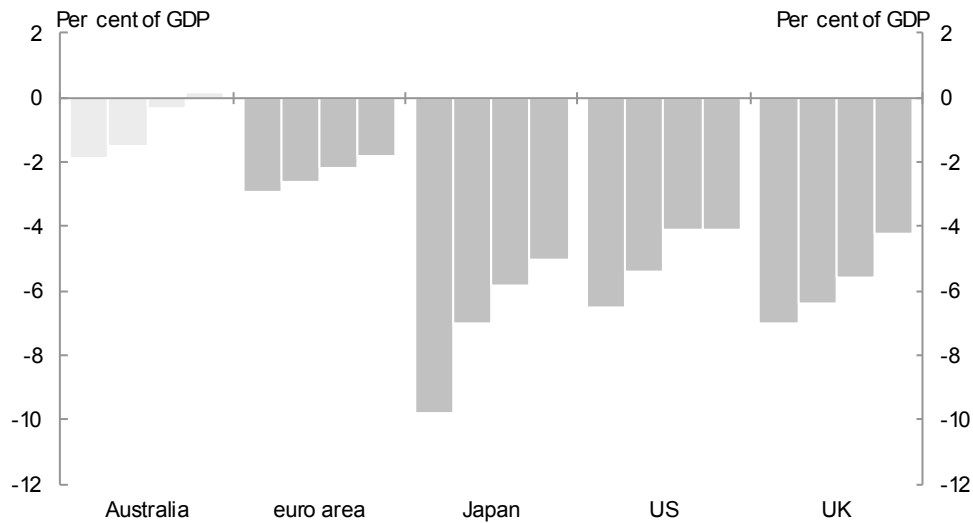
Table 5: Effect of spending and savings decisions since the 2013-14 Budget^(a)

	Estimates			Projections		
	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Effect of policy decisions since Budget						
Spends	-90	-1,370	-4,518	-2,446	-823	-9,247
Saves	7	998	2,910	5,810	7,633	17,357
Total effect of policy decisions since Budget	-84	-373	-1,607	3,364	6,811	8,111
Add Contingency Reserve offsets to policy decisions	0	23	23	23	23	92
Net budget impact of policy decisions	-84	-349	-1,584	3,387	6,834	8,203

(a) On an underlying cash basis.

Australia is on track to return to surplus years ahead of most other advanced economies (Chart 5).

Chart 5: Budget balances of Australia and the G7, 2013-2016



Note: Australian data are for the Australian Government general government sector underlying cash balance and refer to financial years beginning 2013-14. Data for all other economies are total government and refer to calendar years beginning 2013.

Source: IMF Fiscal Monitor April 2013 and Treasury.

Australia is one of only eight sovereigns globally to be rated AAA with a stable outlook by all the major credit rating agencies. This is a ringing endorsement of the Government's fiscal strategy as it has been implemented in recent years, the strength of Australia's fiscal position and the resilience of the Australian economy.

VARIATIONS AND DECISIONS SINCE THE 2013-14 BUDGET

Table 6 provides a reconciliation of the variations in the underlying cash balance estimates since the Budget.

Table 6: Reconciliation of the 2013-14 Budget and Economic Statement underlying cash balance estimates

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	\$m	\$m	\$m	\$m
2013-14 Budget underlying cash balance(a)	-18,043	-10,888	849	6,591
Per cent of GDP	-1.1	-0.6	0.0	0.4
Changes from 2013-14 Budget to ES				
Effect of policy decisions(b)(c)				
<i>Receipts</i>	1,067	-1,492	1,813	5,412
<i>Payments</i>	1,440	116	-1,551	-1,398
Total policy decisions impact on underlying cash balance	-373	-1,607	3,364	6,811
Effect of parameter and other variations(c)				
<i>Receipts</i>	-7,805	-9,571	-7,533	-8,408
<i>Payments</i>	3,922	1,905	1,388	966
Total parameter and other variations impact on underlying cash balance	-11,727	-11,477	-8,921	-9,374
ES underlying cash balance(a)	-30,142	-23,972	-4,708	4,027
Per cent of GDP	-1.9	-1.5	-0.3	0.2

(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) A positive number for receipts indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.

Changes to receipts since the Budget

Since the Budget, parameter and other variations have resulted in a \$33.3 billion write down in receipts over the forward estimates. Tax receipts (including GST) have been revised down by \$7.8 billion in 2013-14, and \$33.3 billion over the four years from 2013-14.

Although a well-performing real economy is fundamental to jobs and economic growth, it is the nominal economy that matters for government tax receipts and the Government's fiscal position.

Since the Budget, lower terms of trade have resulted in estimates of nominal GDP growth being revised down from 5 per cent to 3¾ per cent in 2013-14 and from 5 per cent to 4½ per cent in 2014-15.

Lower wages growth and unincorporated business income since the 2013-14 Budget has resulted in weaker individuals' income tax receipts. Compared to Budget, total individuals' income tax receipts are expected to be \$18.1 billion lower over the four years to 2016-17.

Faster than expected falls in commodity prices have resulted in a weaker outlook for company tax, with company tax receipts expected to be \$9.7 billion lower over the four years to 2016-17 compared to Budget. Resource rent taxes are now expected to be \$560 million lower over the four years to 2016-17 compared to the Budget.

Capital gains tax has been revised down by around \$1.5 billion over the forward estimates due to lower than expected share prices as well as a downgrade in our growth assumption for asset prices (in line with the fall in nominal GDP growth).

Policy decisions since the 2013-14 Budget are expected to increase receipts by \$1.1 billion in 2013-14, by \$1.8 billion in 2015-16 and \$5.4 billion in 2016-17. Policy decisions reduce receipts by \$1.5 billion in 2014-15, driven by the move to bring forward the start date of the carbon emissions trading scheme by one year.

Policy decisions expected to increase receipts include:

- Consistent with the Government's anti-smoking strategies, excise and excise-equivalent customs duty on tobacco and tobacco-related products will be increased under a staged process, with a 12.5 per cent increase to occur on 1 December 2013 and further 12.5 per cent increases on 1 September 2014, 1 September 2015 and 1 September 2016. These increases are in addition to the increases in the duty that occur under indexation arrangements and are expected to increase tax receipts by \$5.8 billion over the forward estimates period (including payments to the states and territories of \$490 million).
- The Government will make the tax system fairer by ensuring the fringe benefits tax exemption for cars is targeted to actual business use rather than including personal use. The reform will apply to all new commitments for car fringe benefits entered into after 16 July 2013 and will take effect from 1 April 2014, after which only the operating cost method will be allowed. This measure, announced on 16 July 2013, is expected to provide net savings of \$1.8 billion over the forward estimates.
- The Government is also providing the ATO with an additional \$99 million over four years to address the levels of unpaid tax and superannuation in the community. This measure will return \$45 million in superannuation to Australian workers and ensure a level playing field for Australian businesses. This measure is expected to improve the underlying cash balance by \$827 million over the forward estimates.
- The Government will progress a recommendation from the Council of Financial Regulators, which includes the Reserve Bank of Australia and the Australian Prudential Regulation Authority, to establish a dedicated Financial Stability Fund to help meet any future cost of the Financial Claims Scheme (FCS), as well as the cost of other resolution activities that protect depositors. The dedicated Fund will build gradually over time to a target size of 0.5 per cent of total deposits protected

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by the FCS. Establishing the Fund is expected to have a net positive impact on the budget of \$733 million over the forward estimates, from 1 January 2016.

- The threshold below which small inactive superannuation accounts, including inactive accounts of uncontactable members, are required to be transferred to the Australian Taxation Office will be increased to protect the real value of more lost superannuation accounts. The threshold will increase from \$2,000 to \$4,000 from 31 December 2015, and then to \$6,000 from 31 December 2016. This measure is estimated to have a net positive impact on the budget in underlying cash balance terms of \$582 million over the forward estimates.

There are also a small number of policy measures since the 2013-14 Budget that reduce receipts:

- The Government's decision to terminate the fixed carbon price and bring forward the start date of emissions trading by one year to 1 July 2014 has a net cost to the budget of approximately \$3.8 billion over the forward estimates, in underlying cash balance terms. This cost has been more than offset by savings measures (see Box 1 on page 38 below).
- The Government has decided to defer the introduction of the \$2,000 cap on work related education expense deductions until 1 July 2015. This will allow for further consultation on how best to target excessive claims while ensuring the impact on university enrolments and genuine continuing professional development is minimised. This measure is expected to decrease receipts by \$250 million over the forward estimates period.

Table 7 shows cash receipts by type of revenue.

Table 7: Australian Government general government (cash) receipts

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	\$m	\$m	\$m	\$m
Individuals' and other withholding taxes				
Gross income tax withholding	160,600	174,000	188,300	201,100
Gross other individuals	33,700	37,000	41,400	45,750
<i>less: Refunds</i>	27,500	28,300	30,100	31,400
Total individuals' and other withholding tax	166,800	182,700	199,600	215,450
Fringe benefits tax	4,160	4,580	4,840	5,120
Company tax	69,250	70,150	75,900	80,100
Superannuation funds	7,620	9,090	11,600	13,090
Minerals resource rent tax(a)	800	1,000	1,400	2,300
Petroleum resource rent tax	2,390	2,440	2,550	2,670
Income taxation receipts	251,020	269,960	295,890	318,730
Goods and services tax	50,633	53,559	56,739	59,909
Wine equalisation tax	760	810	850	900
Luxury car tax	380	350	380	400
Excise and customs duty				
Petrol	5,850	5,750	5,850	5,950
Diesel	8,980	9,180	9,370	9,680
Other fuel products	3,800	3,620	3,690	3,750
Tobacco	8,330	9,120	10,070	10,950
Beer	2,390	2,420	2,570	2,730
Spirits	2,040	2,170	2,310	2,430
Other alcoholic beverages(b)	1,010	1,060	1,120	1,180
Other customs duty				
Textiles, clothing and footwear	720	570	410	440
Passenger motor vehicles	920	980	1,060	1,140
Other imports	1,600	1,670	1,790	1,930
<i>less: Refunds and drawbacks</i>	260	260	260	260
Total excise and customs duty receipts	35,380	36,280	37,980	39,920
Carbon pricing mechanism	6,435	2,805	2,675	3,995
Agricultural levies	461	451	458	464
Other taxes	2,971	3,135	3,500	3,618
Indirect taxation receipts	97,020	97,391	102,581	109,206
Taxation receipts	348,040	367,351	398,471	427,936
Sales of goods and services	8,686	8,519	8,691	8,852
Interest received	3,768	3,676	4,123	4,338
Dividends	2,706	2,444	2,690	2,729
Other non-taxation receipts	6,164	8,170	9,312	6,882
Non-taxation receipts	21,325	22,809	24,817	22,800
Total receipts	369,364	390,160	423,288	450,736
<i>Memorandum:</i>				
<i>Total excise receipts</i>	<i>26,530</i>	<i>27,050</i>	<i>28,260</i>	<i>29,490</i>
<i>Total customs duty receipts</i>	<i>8,850</i>	<i>9,230</i>	<i>9,720</i>	<i>10,430</i>
<i>Capital gains tax(c)</i>	<i>7,900</i>	<i>10,700</i>	<i>13,200</i>	<i>15,400</i>
<i>Medicare and DisabilityCare Australia levy receipts</i>	<i>9,960</i>	<i>10,470</i>	<i>14,480</i>	<i>15,190</i>

(a) Net receipts from the MRRT are expected to be \$0.6 billion in 2013-14, \$0.7 billion in 2014-15, \$1.0 billion in 2015-16 and \$1.7 billion in 2016-17 which represent the net receipt impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) Capital gains tax is part of other individuals, companies and superannuation funds tax.

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Since the 2013-14 Budget, non-tax receipts have increased by \$185 million in 2013-14, largely reflecting higher royalties from changes in forecast prices for crude oil and condensate; increased net receipts from unclaimed superannuation monies; and increases to the heavy vehicle road user charge and Visa Application Charge.

Appendix B provides a list of all policy decisions taken since the Budget.

Changes to payments since Budget

Since the Budget, total cash payments in 2013-14 have increased by \$5.3 billion comprised of new policy decisions, which have increased payments by \$1.4 billion, and parameter and other variations, which have increased payments by \$3.9 billion.

Major increases in expected payments as a result of parameter and other variations since the Budget include:

- Research and Development Tax Incentive payments, which are expected to be \$304 million higher in 2013-14 (\$1.2 billion over four years to 2016-17), reflecting strong claims in the first year of operation of the 45 per cent refundable tax offset for companies with a turnover of less than \$20 million. It is expected that the higher level of claims will continue across the forward estimates;
- offshore asylum seeker management costs, which are expected to be \$351 million higher in 2013-14 (\$1.3 billion over four years to 2016-17), reflecting updated actual and projected unauthorised maritime arrivals and the cost of regional processing centres;
- Private Health Insurance rebate payments, which are expected to increase by \$184 million in 2013-14 (\$769 million over the four years to 2016-17) reflecting higher take-up rates;
- child care costs, which are expected to be \$104 million higher in 2013-14 (\$512 million over the four years to 2016-17), reflecting an increase in the number of children expected to use child care;
- Tertiary Student Assistance payments for Youth Allowance and Austudy, which are expected to be \$120 million higher in 2013-14 (\$475 million over the four years to 2016-17), reflecting a higher than expected number of recipients and higher than expected average payment rates;
- payments of Family Tax Benefits (FTB) and the Schoolkids Bonus, which are expected to be \$93 million higher in 2013-14 (\$392 million over the four years to 2016-17), largely reflecting higher than previously projected numbers of eligible children for FTB Part A and Part B and the Schoolkids Bonus; and

- payments under the Natural Disaster Relief and Recovery Arrangements (NDRRA), which are expected to be \$284 million higher in 2013-14, reflecting changes in the timing of payments for the NDRRA provision, particularly payments for New South Wales.

Major reductions in expected payments as a result of parameter and other variations since the Budget, include:

- payments under the Pharmaceutical Benefits Scheme (PBS), which are expected to be \$388 million lower in 2013-14 (\$2.0 billion over the four years to 2016-17), largely reflecting higher than expected savings from existing pricing policy;
- increased payments to Defence in 2013-14 and 2014-15 of \$359 million and \$304 million respectively with an associated reduction in funding of \$89 million and \$1.0 billion in 2015-16 and 2016-17 respectively and with an increase in Defence's six-year funding guidance beyond the forward estimates of \$426 million in 2017-18 to better match expected capital acquisitions, support the purchase of important Defence capabilities and accelerate investment in critical supporting capabilities and facilities;
- Income Support for Seniors, which is expected to be \$132 million lower in 2013-14 (\$593 million over the four years to 2016-17), reflecting lower than projected recipient numbers; and
- Disability Support Pension payments, while expected to be \$41 million higher in 2013-14, will be \$457 million lower over the four years to 2016-17, resulting from a continued fall in take-up rates following the introduction of the new impairment tables on 1 January 2012.

Since the Budget, policy decisions have decreased the underlying cash balance by \$373 million in 2013-14 but increased the underlying cash balance by \$8.2 billion over the four years of the forward estimates.

Major policy decisions that have increased cash payments over the four years to 2016-17 include:

- the bring forward of the start of the Emissions Trading Scheme (Box 1 below);
- the Australian and Papua New Guinea Regional Resettlement Arrangement (Box 2 on page 40 below);
- additional Official Development Assistance to PNG (Box 3 on page 41 below); and
- new and amended listings on the Pharmaceutical Benefits Scheme and Repatriation Pharmaceutical Benefits Scheme, which are expected to increase payments by \$276 million in 2013-14 (\$1.5 billion over the four years to 2016-17).

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The impact of these policy decisions on payments has been more than offset over the four years to 2016-17 by a number of other decisions that have reduced cash payments, including:

- increasing the public service efficiency dividend to 2 ¼ per cent for three years from 1 July 2014, which is expected to decrease payments by \$262 million in 2014-15 (\$1.8 billion over three years from 2014-15 to 2016-17); and
- slowing the growth rate of Australia's aid budget whilst still meeting the target of 0.5 per cent of Gross National Income by 2017-18. This measure is expected to decrease payments by \$879 million over the four years to 2016-17. Aid spending will still increase by around 26 per cent over this period.

Box 1: Budget impacts of bringing forward the start of the Emissions Trading Scheme (ETS)

The net cost to the budget of bringing forward emissions trading by one year is approximately \$3.8 billion over the forward estimates, in underlying cash balance terms. This reflects lower receipts from the sale of carbon permits and from the application of an equivalent carbon price to fuel taxation and synthetic greenhouse gases, partly offset by lower expenses from the carbon unit buyback facility and a reduction in expenses across a range of government programs as a result of the impact of this measure on the consumer price index.

The estimated carbon price in 2014-15 is based on the same methodology used in the 2013-14 Budget. This methodology uses average market futures prices, with projections of carbon prices for 2015-16 and 2016-17 incorporating the straightforward approach of a linear transition from market prices in 2014-15 to the modelled price of \$38 in 2019-20. For further information, see Box 9 of Budget Statement 2 in the 2013-14 Budget.

This cost of bringing forward emissions trading has been more than offset by \$3.9 billion of responsible savings measures, while protecting assistance to households, the renewable energy sector and emission-intensive trade exposed industries.

Box 1: Budget impacts of bringing forward the start of the Emissions Trading Scheme (ETS) (continued)

Savings measures from within the Clean Energy Future Plan (CEF) include:

- amending the Energy Security Fund by bringing forward the 2015-16 free permit allocation to 2014-15 and discontinuing the program from 1 July 2015, saving \$770 million;
- returning unallocated funding from the Biodiversity Fund, saving \$213 million;
- returning unallocated funding from the Carbon Farming Futures program, saving \$143 million;
- updating the Coal Sector Jobs package allocation in 2014-15, consistent with lower expected carbon prices, saving \$186 million; and
- rephasing \$200 million of funding from the Clean Technology Program and returning \$162 million of unallocated funding to the budget.

Additional savings from outside the CEF Plan involve:

- rephasing \$224 million from the Carbon Capture and Storage program to align funding with expected expenditure on projects;
- abolishing the statutory formula method for calculating the taxable value of car fringe benefits tax for new commitments entered into after 16 July 2013, with effect from 1 April 2014, saving \$1.8 billion; and
- reforming public service management structures and more efficient procurement of agency software to generate additional public service efficiencies, saving \$248 million.

These changes were announced on 16 July 2013.

Box 2: Australia and Papua New Guinea Regional Resettlement Arrangement

On 19 July 2013, the Government announced and signed a new arrangement with Papua New Guinea (PNG) – the Regional Resettlement Arrangement – for unauthorised maritime arrivals to be sent to PNG for assessment and, if found to be a refugee, to be settled there.

Major elements include:

- regional processing centres in PNG – operating costs are dependent on site configuration and topology, transport and support costs;
- support for unauthorised maritime arrivals living in community based arrangements, including ongoing support provided by service providers;
- assistance to the PNG Government to implement a refugee status determination process; and
- support for arrangements to facilitate the voluntary return of unauthorised maritime arrivals to their country of origin.

The total estimated operating cost of the Arrangement is \$175 million in 2013-14, and \$1.1 billion over four years, partially funded from a \$423 million reduction in the operating costs of the onshore detention network (a net impact of \$632 million) over the four years to 2016-17. Capital costs of \$194 million are included in 2013-14 to expand Manus Island facilities.

Included in the operating costs is support for unauthorised maritime arrivals living in community-based arrangements of \$13 million in 2013-14 and \$236 million over four years. This has been offset from a reduction in AusAID's budget. Assistance to the PNG Government to develop and implement a refugee status determination process will be funded from the provision for expanded aid funding held in the contingency reserve.

The remaining costs of this package have been offset from whole-of-government savings.

The Government will continue to review initiatives to ensure this policy is effective in sending the message that coming to Australia by boat is not the way to gain Australian residency.

Box 3: Additional Official Development Assistance (ODA) to PNG

The Government will provide \$420 million over four years of additional ODA to PNG (and additional non-ODA eligible funding of \$18 million over four years for law and order). This is principally comprised of:

- Health – rebuilding the Lae hospital (\$207 million over four years);
- Education – rehabilitation of the University of PNG (\$62 million over four years);
- Justice – deployments to the PNG Department of Corrections and the Royal PNG Constabulary, as well as scoping and design for the Magisterial Services Court (\$19 million over four years);
- Transport – scoping and design for the Madang-Ramu highway (\$0.8 million over four years); and
- Law and Order – deployment of 50 Australian Federal Police officers for advisory and mentoring roles in local police stations (\$132 million of ODA).

This is in addition to the existing \$500 million per annum aid commitment to PNG (\$507 million in 2013-14).

The additional development assistance to PNG will be met from within existing AusAID resources.

Responsible savings

Since the Budget, the Government has made \$17.4 billion of responsible savings decisions, including changes to the FBT treatment of car fringe benefits, increased tobacco excise, a recalibration in the rate of growth of ODA expenditure, and an increase in the public service efficiency dividend.

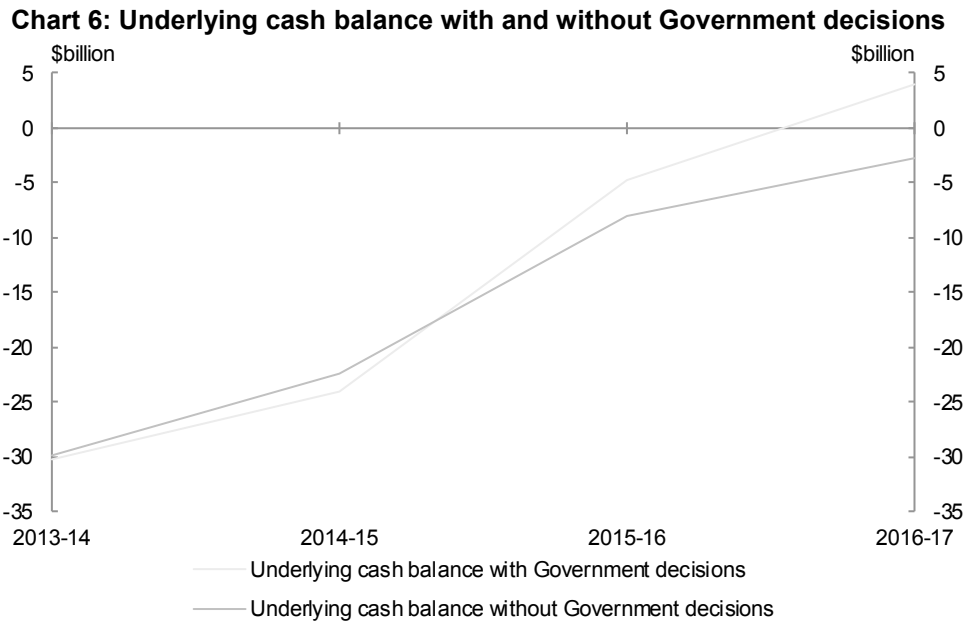
In this Economic Statement the Government has identified savings of \$17.4 billion across the forward estimates. These savings build on previous saves of over \$180 billion identified by the Government in the six budgets since 2008-09.

The Government's fiscal strategy includes a strong focus on the medium-term sustainability of the budget. When making decisions, the Government considers not only the financial impact on the forward estimates period, but also the longer-term budgetary and economic effects.

Since its first budget in 2008-09, the Government has made savings decisions that will continue to improve the budget position well beyond the end of the forward estimates. These include increasing the pension age to 67, increasing the Medicare Levy and reforms to the private health insurance rebate and to the family payments system. The

decisions in this Economic Statement build on these earlier decisions to help improve the structural position of the budget and provide space for significant new priorities.

Without the net impact of new policy decisions since the Budget, there would have been underlying cash deficits of \$29.8 billion in 2013-14, \$22.4 billion in 2014-15, \$8.1 billion in 2015-16 and \$2.8 billion in 2016-17 (Chart 6).



Fiscal balance estimates

The fiscal balance deficit is expected to be \$25.6 billion (1.6 per cent of GDP) in 2013-14, \$12.1 billion higher than the \$13.5 billion deficit expected at Budget.

Movements in accrual revenue and expenses over the forward estimates are broadly similar to the movements in cash receipts and payments. More detailed information on differences can be found in *Statement 3: Fiscal strategy and outlook of the 2013-14 Budget Paper No. 1*.

Table 8 provides a reconciliation of the fiscal balance estimates since the Budget.

Table 8: Reconciliation of the 2013-14 Budget and ES fiscal balance estimates^(a)

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	\$m	\$m	\$m	\$m
2013-14 Budget fiscal balance	-13,497	-6,255	5,955	10,819
Per cent of GDP	-0.8	-0.4	0.3	0.6
Changes from 2013-14 Budget to ES				
Effect of policy decisions(a)(b)				
Revenue	699	-5,466	3,145	4,210
Expenses	1,129	-1,688	-1,615	-2,201
Net capital investment	317	2	0	0
Total policy decisions impact on fiscal balance	-747	-3,779	4,761	6,411
Effect of parameter and other variations(b)				
Revenue	-8,547	-8,625	-8,148	-8,229
Expenses	2,080	1,967	1,439	2,149
Net capital investment	681	1,594	-651	-713
Total parameter and other variations impact on fiscal balance	-11,308	-12,186	-8,936	-9,666
ES fiscal balance	-25,553	-22,220	1,780	7,564
Per cent of GDP	-1.6	-1.4	0.1	0.4

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

(b) 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.

MEDIUM-TERM FISCAL STRATEGY

Box 4: Government's medium-term fiscal strategy

The Government's medium-term fiscal strategy is to:

- achieve budget surpluses, on average, over the medium term;
- keep taxation as a share of GDP, on average, below the level for 2007-08 (23.7 per cent); and
- improve the Government's net financial worth over the medium term.

To ensure a timely return to surplus and recovery in the fiscal position, since the beginning of the global financial crisis the Government has further committed to:

- allow the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- build growing surpluses by holding real growth in spending to 2 per cent a year, on average, until the budget surplus is at least 1 per cent of GDP, and while the economy is growing at or above trend.

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The Government's responsible savings decisions provide a pathway to budget surplus in 2016-17, which will improve the Government's net financial worth over the medium term.

In 2013-14, the economy is expected to grow at 2½ per cent – below trend rate. In 2014-15, the economy is expected to grow around trend. From 2014-15 onwards, real growth in payments is estimated to be less than 2 per cent per annum in each year. Average real spending growth over the five years from 2012-13 is only 1.3 per cent per annum, the same level as reported in the Budget (Table 9).

In years where economic growth is more constrained, due to the challenges facing the Australian economy, the Government is not making drastic cuts to payments which would come at a significant cost to households, services, jobs and growth.

Table 9: Real spending growth

	2012-13(a)	2013-14	2014-15	2015-16	2016-17
Real payment growth	-3.2	5.7	1.6	0.8	1.8
Average real growth in payments	1.3				

(a) Based on 2013-14 Budget data.

NET DEBT, NET FINANCIAL WORTH AND NET WORTH

Table 10 provides a summary of the Australian Government general government sector net financial worth, net worth, net debt and net interest payments.

Table 10: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	\$b	\$b	\$b	\$b
Financial assets	261.2	280.1	306.8	345.3
Non-financial assets	113.6	116.7	118.9	120.4
Total assets	374.7	396.9	425.6	465.6
Total liabilities	555.1	596.4	622.5	655.5
Net worth	-180.4	-199.6	-196.9	-189.9
Net financial worth(a)	-294.0	-316.3	-315.8	-310.3
Per cent of GDP	-18.8	-19.3	-18.3	-17.0
Net debt(b)	184.1	212.2	219.1	217.6
Per cent of GDP	11.7	13.0	12.7	12.0
Net interest payments	8.4	9.5	11.5	10.0
Per cent of GDP	0.5	0.6	0.7	0.5

(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.

Net debt for the Australian Government general government sector is estimated to be \$184.1 billion (11.7 per cent of GDP) in 2013-14, compared to \$178.1 billion estimated at Budget.

As a share of GDP, net debt is expected to peak at 13.0 per cent in 2014-15, and then reduce to 12.0 per cent by 2016-17.

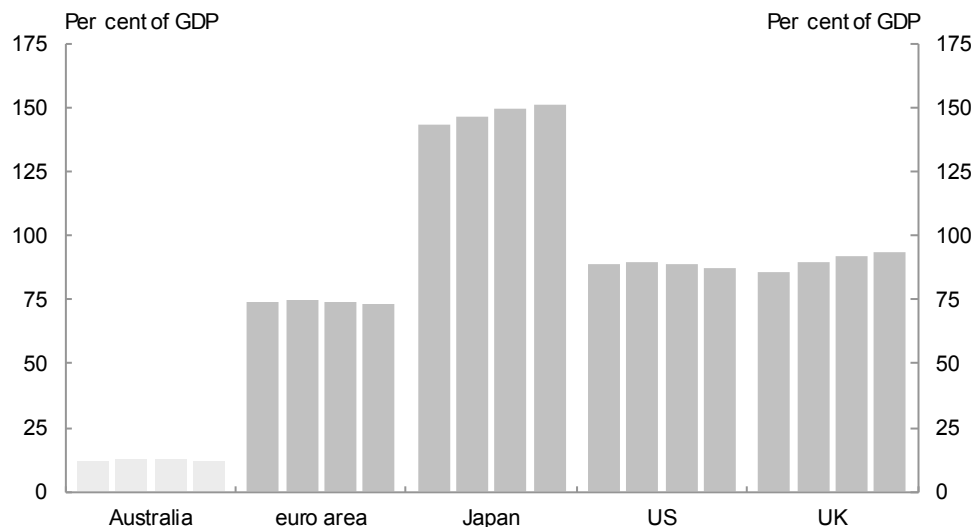
The increase in 2013-14 net debt since the Budget is primarily driven by more issuance of Commonwealth Government Securities (CGS). This increase has been partially offset by higher yields (interest rates) on CGS on issue than were assumed at the time of the Budget, which results in a lower market value of CGS on issue.

The changes to net debt also impact on net financial worth and net worth.

- Net financial worth is estimated to be -\$294.0 billion in 2013-14, compared to the Budget estimate of -\$286.1 billion.
- Net worth is forecast to be -\$180.4 billion in 2013-14, compared to the Budget estimate of -\$173.5 billion.

Australian Government net debt remains very low by international standards. The expected peak in net debt as a share of GDP in 2014-15 is a fraction of the average net debt in major advanced economies (Chart 7).

Chart 7: Comparison of Government net debt for selected economies, 2013-2016



Note: Australian data are for the Australian Government general government sector and refer to financial years beginning 2013-14. Data for all other economies are total government and refer to calendar years beginning 2013.

Source: IMF *Fiscal Monitor* April 2013 and Treasury.

Commonwealth Government Securities

The Australian Government issues debt securities to the public in the form of Treasury Bonds, Treasury Indexed Bonds (TIBs) and Treasury Notes, collectively known as Commonwealth Government Securities (CGS). CGS are reported on the balance sheet in market value terms, consistent with the relevant accounting standards. The market value of CGS reflects prices in the secondary market, which are constantly changing with market conditions.

The face value of CGS on issue is the amount that the Government owes to investors, and is independent of fluctuations in market prices. The face value of CGS on issue fluctuates depending on the issuance of new securities and maturities of securities outstanding. The 'peak' amount of CGS on issue in any given year will depend on the timing of revenue, expenditure and CGS maturities.

The *Commonwealth Inscribed Stock Act 1911* places a limit of \$300 billion on the face value of CGS outstanding. As stated in the 2013-14 Budget, the Government will legislate to increase the limit as it becomes necessary.

Based on current estimates, CGS outstanding is expected to reach the limit within the 2013-14 financial year (around December 2013) and will remain around that level from December 2013 onwards. CGS on issue is expected to increase over the forward estimates.

Table 11 contains projections of the face value of CGS on issue subject to the legislative limit. It is important to note that there is a debt issuance strategy for the budget year only. Projections beyond the budget year are based on a set of technical assumptions and will vary significantly with changes to budget estimates and projections

Table 11: Projected face value of Commonwealth Government Securities^{(a)(b)}

	2013-14	2014-15	2015-16	2016-17
	\$b	\$b	\$b	\$b
End-of-year amount	290	330	350	370
Within-year peak(c)	300	350	370	Not available
Month of peak	Dec-13	Apr-15	Apr-16	Not available

(a) Data in this table are rounded to the nearest \$10 billion.

(b) These figures exclude TIBs issued before July 2008 which are not subject to the legislative limit. \$4.6 billion of TIBs are not subject to the legislative limit in 2013-14 and 2014-15, and following a maturity in August 2015, \$2.5 billion of TIBs will not be subject to the limit in 2015-16 and 2016-17.

(c) The precise within-year timing of cash outlays and receipts are not known. Estimates of projected peaks of CGS on issue are therefore subject to considerable uncertainty.

Source: Australian Office of Financial Management.