PART 1: OVERVIEW

The Government is continuing to implement its plan to boost economic growth, create jobs, support small businesses and reduce the cost of living pressures faced by Australians. This plan will continue to support the economy as it transitions to broader-based growth.

The Government is taking action to guarantee the essential services relied on by Australians.

- The Government's National Energy Guarantee is a crucial part of the Government's plan to ensure that Australia's energy system delivers affordable, reliable and sustainable power to households and businesses.

- Implementation of the Government's comprehensive housing affordability plan is on track.

- The Government has established the Medicare Guarantee Fund, guaranteeing Australians' access to Medicare and affordable medicines.

- To fill the funding gap and sustainably fund the National Disability Insurance Scheme, legislation has been introduced to increase the Medicare levy from 2.0 per cent to 2.5 per cent of taxable income from 1 July 2019.

- Legislation has been passed to deliver on the Government's commitment to a schools funding model that is genuinely needs-based, simple and transparent.

The Government is delivering on its fiscal strategy and budget repair, with the 2017-18 Mid-Year Economic and Fiscal Outlook (MYEFO) confirming the budget remains on track to achieve a surplus in 2020-21. Since the 2017-18 Budget, the underlying cash balance has improved by around $9.3 billion across the forward estimates. In particular, the forecast deficit in 2017-18 has improved to 1.3 per cent of GDP, compared with 1.6 per cent of GDP at the 2017-18 Budget.

Australia's economy has now completed its 26th consecutive year of economic growth and is expected to grow at a solid pace in 2017-18 as the drag on growth from falling mining investment nears completion. Support to growth is also expected from non-mining business investment, household consumption, public final demand and exports. Real GDP is forecast to grow by 2½ per cent in 2017-18 and 3 per cent in 2018-19 after growth of 2.0 per cent was achieved in 2016-17.

UPDATED FISCAL OUTLOOK

Reflecting the Government's prudent fiscal management, the underlying cash deficit is expected to continue to narrow from $23.6 billion (1.3 per cent of GDP) in 2017-18 before returning to a projected surplus of $10.2 billion (0.5 per cent of GDP) in 2020-21. The average annual pace of fiscal consolidation is 0.6 per cent of GDP over the forward estimates period.

The net operating balance is also expected to improve from a deficit of $18.2 billion (1.0 per cent of GDP) in 2017-18 to projected surpluses of $6.8 billion (0.3 per cent of GDP) in 2019-20 and $20.9 billion (1.0 per cent of GDP) in 2020-21.

Table 1.1: Budget aggregates

	Estimates			
	2017-18		2018-19	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Underlying cash balance(a)	**-29.4**	**-23.6**	**-21.4**	**-20.5**
Per cent of GDP	-1.6	-1.3	-1.1	-1.1
Net operating balance	**-19.8**	**-18.2**	**-10.8**	**-9.9**
Per cent of GDP	-1.1	-1.0	-0.6	-0.5
	Projections			
	2019-20		2020-21	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Underlying cash balance(a)	**-2.5**	**-2.6**	**7.4**	**10.2**
Per cent of GDP	-0.1	-0.1	0.4	0.5
Net operating balance	**7.6**	**6.8**	**17.5**	**20.9**
Per cent of GDP	0.4	0.3	0.8	1.0

(a) Excludes expected net Future Fund earnings before 2020-21.

The payments-to-GDP ratio is expected to be 25.2 per cent in 2017-18, falling to 24.9 per cent of GDP by 2020-21, slightly above the 30-year historical average of 24.8 per cent. Compared with the 2017-18 Budget, nominal payments are lower in every year of the forward estimates and have decreased by a total of $6.5 billion. Real growth in payments over the forward estimates is expected to be 1.9 per cent per annum on average, consistent with the 2017-18 Budget.

Expected total receipts have been revised up by around $3.6 billion in 2017-18 and $2.8 billion over the four years to 2020-21, relative to the levels at the time of the 2017-18 Budget. This is mainly driven by upwards revisions to the forecasts for company tax and superannuation fund taxes. Company tax forecasts are being revised upwards due to stronger-than-expected collections, increased company profitability and successful ATO enforcement activity. However, over the forward estimates, lower forecasts for wages and unincorporated business income are expected to weigh on individuals' income tax receipts.

Net debt is expected to stabilise over the forward estimates, peaking at 19.2 per cent of GDP in 2018-19, down from the Budget estimate of 19.8 per cent. It is expected to reduce to 17.2 per cent of GDP in 2020-21, or $10.9 billion less than was estimated at the 2017-18 Budget.

Projected gross debt is estimated to be $23 billion lower at the end of the forward estimates than was estimated at the 2017-18 Budget.

After taking into account the net operating balance, infrastructure grants and non–cash accounting provisions, the Government is now not expected to need to borrow for recurrent spending from 2017-18, which is a year earlier than was expected at the time of the 2017-18 Budget.

UPDATED ECONOMIC OUTLOOK

Real GDP growth is forecast to lift as the drag from mining investment diminishes. In 2016-17, mining investment made its smallest detraction from growth in three years. Non-mining business investment, housing consumption, public final demand and exports are also expected to support growth in 2017-18. Dwelling investment is forecast to fall slightly. Real GDP is forecast to grow by 2½ per cent in 2017-18 and 3 per cent in 2018-19, compared to 2.0 per cent achieved in 2016-17 and Budget forecasts of 2¾ per cent and 3 per cent for 2017-18 and 2018-19 respectively.

Table 1.2: Major economic parameters[(a)]

	Outcomes	Forecasts		Projections	
	2016-17	2017-18	2018-19	2019-20	2020-21
Real GDP	2.0	2 1/2	3	3	3
Employment	1.9	1 3/4	1 1/2	1 1/4	1 1/4
Unemployment rate	5.6	5 1/2	5 1/4	5 1/4	5 1/4
Consumer price index	1.9	2	2 1/4	2 1/2	2 1/2
Wage price index	1.9	2 1/4	2 3/4	3 1/4	3 1/2
Nominal GDP	5.8	3 1/2	4	4 1/2	4 3/4

(a) Year average unless otherwise stated. From 2016-17 to 2018-19, employment and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through the year growth to the June quarter.
Source: ABS Cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

Nominal GDP is forecast to grow by 3½ per cent in 2017-18 and 4 per cent in 2018-19. The 2017-18 forecast is lower compared with Budget, largely reflecting recent subdued outcomes for wage growth and domestic prices. Commodity prices remain a key uncertainty to the outlook for the terms of trade and nominal GDP.

Global growth has strengthened significantly over the course of the year. While the strengthening in growth was anticipated at Budget, it has accelerated by more than forecast. The drivers of global growth have become increasingly broad-based. Growth has strengthened in most advanced and emerging economies over the year, producing a more synchronised global expansion.

DELIVERING ON THE GOVERNMENT'S ECONOMIC PLAN

The Government has put in place measures that encourage growth and support a dynamic and competitive economy that helps Australia to capitalise on opportunities domestically and globally.

Stronger growth

In addition to supporting a resurgence in private investment, the Government's economic plan seeks to boost jobs and growth through investment in well-selected infrastructure projects that improve long-run productivity.

Infrastructure

The Government is continuing its record $75 billion investment in transport infrastructure, using a combination of grant funding, loans and equity investments.

Since the 2017-18 Budget, the Commonwealth has committed additional funding of $439 million for regional rail projects in Victoria. In total, the Government is providing a $1.42 billion funding package to upgrade regional rail across Victoria and $30 million to undertake a business case for the Melbourne Airport Rail Link. These significant investments in regional rail will improve transport connections between Melbourne and regional Victoria and are estimated to create over 1,000 new jobs. The Commonwealth has also committed $80 million to the Macquarie Park Transport Interchange in Sydney, a project which will reduce congestion.

The Government is getting on with delivering Western Sydney Airport following the 2017-18 Budget commitment to provide an equity investment of up to $5.3 billion for stage one of the airport. Western Sydney Airport construction is due to start in 2018, with operations due to commence by 2026. Western Sydney Airport will connect Western Sydney to the world and support 28,000 direct and indirect jobs. The Government is also delivering the Melbourne to Brisbane Inland Rail project. Work on the 107 kilometre Parkes to Narromine section upgrade, including a new 5.3-kilometre corridor connection, is expected to commence in 2017-18. At the peak of construction, Inland Rail will support an estimated 16,000 direct and indirect jobs.

Energy

The Government is committed to ensuring reliable and affordable energy for all Australians. Australia's energy system is responding to changes in technology, consumer preferences and environmental factors and the Government is taking action to ensure this transition occurs smoothly. The National Energy Guarantee (NEG) will be a crucial part of this plan. The NEG will improve reliability and investment certainty while ensuring the energy sector plays its role in meeting Australia's international emissions reduction obligations.

Australians are under pressure from rising power prices and the Government is taking steps to address this. The Government has secured agreement from major electricity retailers to ensure that Australians get the best deal on their bills. In just the first month following this agreement, over 100,000 Australians moved onto retail electricity offers that made them better off. The Government has also passed legislation to limit the ability of energy network companies to game the system and pass increased costs on to consumers by removing their ability to appeal decisions of the Australian Energy Regulator (AER). To assist with this process, the Government has provided an additional $67.4 million in funding for the AER. This will ensure that the AER is fully equipped to prevent market-distorting behaviour.

Earlier this year, the Government directed the Australian Competition and Consumer Commission (ACCC) to undertake inquiries into competition in electricity and gas markets. As part of this process, the ACCC has released interim reports on gas and electricity. The ACCC will continue to investigate these markets and its findings will help lead to better outcomes for consumers and businesses.

The Government has acted to ensure that there will be enough gas to meet the needs of businesses and households. East coast liquefied natural gas exporters have agreed to a number of commitments to maintain the availability and affordability of gas supply to the domestic market. The most recent ACCC gas report found that this has resulted in more gas being diverted to domestic users, which has substantially lowered prices. The Government will continue to work with relevant regulators and energy market bodies, including the ACCC, to improve the transparency and operation of the gas market.

Providing a reliable and dependable energy network is essential for Australia's continued prosperity. The Snowy Hydro 2.0 proposal will help safeguard the energy security of the eastern seaboard. Snowy 2.0 will provide an additional generation capacity of 2,000 megawatts—enough to power around 500,000 homes. The unprecedented expansion will not only increase energy supply and capacity, but along with the NEG requirements, will increase system reliability by guaranteeing firm supply from intermittent renewable energy supplies. It will help stabilise electricity supply into the future.

Guaranteeing the essentials

The Government is taking action to guarantee the essential services on which Australians rely. The Government is protecting and boosting housing affordability, essential healthcare, disability and education services.

Improving housing affordability

The Government is continuing to implement the comprehensive housing affordability plan, announced at the 2017-18 Budget, designed to improve outcomes across the housing spectrum.

The Government has initiated negotiations with the States and Territories on a new National Housing and Homelessness Agreement to improve transparency and accountability for the Commonwealth's expenditure on housing and homelessness. The Government has introduced legislation to support the new Agreement and funding arrangements.

The Government has passed legislation to:

- assist first home buyers to build a deposit inside superannuation through the First Home Super Saver Scheme;
- provide older Australians wishing to downsize with greater flexibility to contribute the sale proceeds of their home into superannuation; and
- strengthen the rules that apply to foreign persons owning Australian property.

Since Budget, the Government has released a Consultation Paper on the National Housing Finance and Investment Corporation (NHFIC), the National Housing Infrastructure Facility (NHIF) and the affordable housing bond aggregator. More than 120 stakeholder groups across Australia were consulted in targeted roundtables and more than 50 submissions were received.

The NHFIC, a new Commonwealth corporate entity dedicated to improving housing outcomes, will be established by 1 July 2018. The NHFIC will have an independent Board with responsibility for making all investment decisions. The Board will have the flexibility to tailor finance to meet the needs of recipients and be guided by an investment mandate that reflects the Government's priorities for the NHFIC.

The NHFIC will house the $1 billion NHIF that will use tailored financing to fund infrastructure that unlocks new housing supply. Eligibility for NHIF finance include State, Territory, and local-government owned corporations and utility providers, and registered Community Housing Providers (CHPs). The NHIF will no longer be a terminating fund and will be able to reinvest its income to continue addressing housing infrastructure needs on an ongoing basis.

The NHFIC will also comprise an affordable housing bond aggregator that will pool the financing needs of eligible registered CHPs to drive efficiencies and cost savings. To provide stability and confidence, the Government will guarantee the bonds issued by the NHFIC.

Ensuring access to quality and affordable health care

As announced at Budget, the Medicare Guarantee Fund was established on 1 July 2017 and credited with $33.8 billion to secure the ongoing funding of the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS), guaranteeing Australians' access to these services and affordable medicines into the future.

The Government is continuing to meet its commitment to list new medicines on the PBS. This MYEFO includes $2.1 billion for new and amended listings, including medicines to treat chronic lymphocytic leukaemia, small lymphocytic lymphoma, non-small cell lung cancer and renal cell carcinoma.

The Government has also committed new funding for medical research from the Medical Research Future Fund. The Government will provide $50 million to support the Australian Brain Cancer Mission to improve the survival rates of people living with brain cancer, $70 million to support Australia's next generation of medical research fellowships and $30 million to support Australia's biomedical technology sector.

In October 2017, the Government announced a package of reforms to make private health insurance simpler and more affordable for Australians. The Government will allow insurers to discount hospital insurance premiums for 18 to 29 year olds by up to 10 per cent, to help make private health insurance more affordable for younger Australians.

Sustainably funding the National Disability Insurance Scheme

The Government is committed to filling the funding gap and sustainably funding the National Disability Insurance Scheme (NDIS) to provide care and support for Australians with permanent and significant disability. On 17 August 2017, the Government introduced legislation to increase the Medicare levy from 2.0 per cent to 2.5 per cent of taxable income from 1 July 2019. From this date, one-fifth of the revenue raised by the Medicare levy will be credited to the NDIS Savings Fund Special Account, building on the Commonwealth's share of the DisabilityCare Australia Fund, repurposed disability-related expenditure and other credits to the NDIS Savings Fund Special Account to ensure that the Commonwealth's NDIS contribution is fully funded on a sustainable basis.

The Commonwealth and Western Australian Governments announced on 12 December 2017 that Western Australia (WA) would join the NDIS delivering a truly national disability insurance scheme. WA's agreement to join the nationally-delivered NDIS means people with disability in Western Australia, and across Australia, will be able to access the support they need through a nationally consistent and nationally delivered NDIS.

Needs based, simple and transparent schools funding

Since the 2017-18 Budget, the Government has secured passage of legislation that provided $23.5 billion of additional funding for schools over the period to 2027. This legislation delivers on the Government's commitment to a schools funding model that is genuinely needs-based, simple and transparent.

The Government has convened a panel of education experts to be chaired by David Gonski AC to deliver the Review to Achieve Educational Excellence in Australian Schools. The Review will provide advice on how Commonwealth funding should be used by Australian schools to improve student achievement and school performance. The Review is due to report to Government in March 2018.

Returning the Budget to balance by living within our means

Budget repair remains a key element of the Government's economic plan, with this MYEFO result providing an improved trajectory consistent with the Government's fiscal strategy, including a return to surplus in 2020-21.

This is the Government's fifth consecutive Budget update with a projected return to surplus in 2020-21. The fiscal outlook remaining on track is an important buffer should external or domestic risks materialise.

Decisions taken since the 2017-18 Budget as a result of Senate positions had a net negative impact on the underlying cash balance of $2.5 billion over the forward estimates. Adjusting for these decisions, including those that helped secure parliamentary support for the Government's School Reform Package and the impact of a revised Higher Education Reform Package, the net impact of policy decisions taken since the 2017-18 Budget is a $573 million improvement in the underlying cash balance over the forward estimates as illustrated in Table 1.3 below.

Table 1.3: Reconciliation of decisions in the 2017-18 MYEFO for Senate positions (underlying cash)

	Estimates		Projections		
	2017-18	2018-19	2019-20	2020-21	Total
	$m	$m	$m	$m	$m
Total impact of policy decisions since the 2017-18 Budget					
Receipts	280	-258	271	72	365
Payments	-1,351	-273	-535	-151	-2,309
Total impact of policy decisions prior to Senate positions	**-1,071**	**-531**	**-264**	**-79**	**-1,944**
Decisions taken as a result of Senate positions					
Receipts	0	0	28	32	61
Payments	-165	-485	-764	-1,164	-2,578
Total Decisions taken as a result of Senate positions	**-165**	**-485**	**-736**	**-1,131**	**-2,517**
Net Budget impact of new policy decisions in the 2017-18 MYEFO					
Receipts	280	-259	243	39	304
Payments	-1,186	213	229	1,013	269
Net Budget impact of new policy decisions in the 2017-18 MYEFO	**-906**	**-46**	**472**	**1,052**	**573**

The Government will achieve savings of $1.2 billion over four years from 2017-18 by broadening the criteria for waiting periods for newly arrived migrants before they can access certain welfare benefits. From 1 July 2018, the current two year waiting period for a range of payments will be extended to three years; a three year waiting period will be applied to Family Tax Benefit (FTB), Paid Parental Leave (PPL) and Carers Allowance; and the current two year Assurance of Support requirement applying to family visas will be increased to three years.

Exemptions for vulnerable groups will apply and New Zealand citizens who are on Special Category Visas and have children in their care will be exempt from waiting periods when accessing FTB and PPL. The Government will include a short term exemption for newly arrived residents who would have otherwise been eligible to receive PPL between 1 July 2018 and 31 December 2018.

The Government will achieve savings of $400.1 million over four years from 2017-18 ($176.6 million in fiscal balance terms) by using Family Tax Benefit lump sum, reconciliation or instalment arrears payments to repay outstanding social security, student assistance or PPL debts from 1 December 2018.

While the Government's preference for putting higher education funding on a more sustainable footing was through the measures in the 2017-18 Budget Higher Education Reform Package, the Senate has been unwilling to pass the related legislation. Given this, the Government will reverse the legislative elements of the package and proceed with an alternative package of reforms to improve sustainability, transparency and accountability to students and taxpayers. These reforms include a freeze on total Commonwealth Grant Scheme funding from 1 January 2018, set at 2017 funding levels, and a combined limit for all tuition fee assistance under all HELP and VET Student Loans.

The Government will also pursue an alternative set of HELP repayment thresholds from 1 July 2018, with a new minimum repayment threshold of $45,000. The Government will proceed with the non-legislative parts of the 2017-18 Budget package to improve transparency, accountability, and responsiveness to the aspirations of students and future workforce needs.

PROGRESS ON BUDGET REPAIR MEASURES

Since the 2016 Pre-election Economic and Fiscal Outlook (PEFO), the Government has made significant progress in implementing unlegislated budget repair measures, including through appropriations and regulations. The total impact of budget repair measures implemented since the 2016 PEFO is over $37 billion. Significant 2017-18 Budget repair measures that have been legislated include:

- Major bank levy ($5.5 billion over the forward estimates); and
- Pause in FTB A & B Payment indexation rates for two years ($1.9 billion over the forward estimates).

The Government has decided to no longer proceed with some unlegislated measures from prior rounds as a result of Senate positions, including the Higher Education Reform measures from the 2017-18 Budget.

The Government remains committed to continuing to work with the Parliament to secure the successful passage of all remaining unlegislated budget repair measures.

The revised estimated impact over the forward estimates of the remaining unlegislated measures, announced prior to the 2017-18 MYEFO, after taking account of parameter changes is a positive impact of $16.1 billion. This comprises around $11.3 billion of receipt increases and around $4.8 billion of payment saves. The net impact of the remaining unlegislated measures announced prior to the 2017-18 Budget is now less than $3.0 billion.