Statement 3: Fiscal Strategy and Outlook

The Government's fiscal policy settings have served Australia well. The substantial COVID-19 economic support along with Australia's success in managing the health situation has been instrumental in the strong economic recovery, which is now delivering a large fiscal dividend. The fiscal position has continued to improve markedly despite significant challenges including the Omicron outbreaks and the recent floods in Queensland and New South Wales.

The Government has transitioned to the second phase of the Economic and Fiscal Strategy, consistent with the strength of the economic recovery and having achieved the objective of low unemployment. By supporting economic growth over the medium term, the strategy will underpin stronger public finances, guarantee provision of essential services and maintain taxes within the 23.9 per cent tax-to-GDP cap.

This Budget projects stronger finances with a substantial $103.6 billion improvement in the underlying cash balance over the 5 years to 2025-26 since MYEFO. The underlying cash deficit in 2022-23 is expected to be $78.0 billion (3.4 per cent of GDP), a $20.9 billion improvement from MYEFO. The deficit is expected to halve as a share of the economy over the forward estimates to $43.1 billion (1.6 per cent of GDP) in 2025-26 and continue to decline to 0.7 per cent of GDP by 2032-33.

Consistent with the Economic and Fiscal Strategy, the stronger economy and smaller deficits are expected to see gross debt as a share of the economy peak at 44.9 per cent of GDP at 30 June 2025, 5.4 percentage points lower and 4 years earlier than at MYEFO. Gross debt is then projected to fall to 40.3 per cent of GDP by the end of the medium term, 9.6 percentage points lower or $236 billion lower than expected at MYEFO. This demonstrates the dividend of a clear Economic and Fiscal Strategy that has delivered a stronger economy and low unemployment. It is also an important step in the longer-term task of steadily reducing debt and rebuilding fiscal buffers, which will ensure Australia remains well placed to respond to future shocks.

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Statement 3: Fiscal Strategy and Outlook

Overview

The Australian economy has recovered strongly and the unemployment rate is expected to fall below 4 per cent this year, the first time this has occurred in nearly half a century. With the Government's substantial economic support tapering, the private sector is now leading the recovery underpinned by strong household and business balance sheets and a large pipeline of private investment.

Despite the impact of Omicron outbreaks and the recent floods in Queensland and New South Wales, the fiscal position has improved markedly since MYEFO, reflecting the success of the Government's economic plan to grow the economy and reduce unemployment to historically low levels. While the Russian invasion of Ukraine and potential new variants of COVID-19 continue to present risks to the outlook, optimism can be drawn from the resilience of the economy over recent years.

Strong economic conditions are delivering a significant improvement in the fiscal position. This positive outlook reflects the Government's decisive policy action during the pandemic. The Government has provided an unprecedented level of economic support with $314 billion committed since the onset of the pandemic, equivalent to 15.2 per cent of GDP.

This Budget delivers the next stage of Australia's plan for a stronger future with $39.3 billion in total decisions. It is a plan that delivers more jobs with investments in infrastructure, skills and our regions, and provides temporary and targeted cost of living relief. It also delivers record funding in essential services, invests in small business and local manufacturing, and stronger defence, borders and national security. The Budget also provides immediate financial assistance for communities affected by the devastating floods and provisions for further relief and recovery.

A stronger-than-expected labour market recovery and associated pick-up in wages growth has driven large upward revisions to personal income tax receipts, notwithstanding $11.9 billion in tax relief that will be provided when taxpayers lodge their 2021-22 tax returns. Along with reductions in unemployment benefit recipients from a stronger labour market and the effect of higher near-term commodity prices, this has resulted in a substantial $103.6 billion improvement in the expected underlying cash balance between 2021-22 and 2025-26 since MYEFO (Table 3.1). In 2022-23, the expected underlying cash deficit has improved to $78.0 billion (3.4 per cent of GDP) from an estimate of $98.9 billion (4.4 per cent of GDP) at MYEFO.

Table 3.1: Change in underlying cash balance from MYEFO

	Estimates					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total
	$b	$b	$b	$b	$b	$b
Underlying cash balance						
Budget	-79.8	-78.0	-56.5	-47.1	-43.1	-304.5
MYEFO	*-99.2*	*-98.9*	*-84.5*	*-57.5*	*-68.1*	*-408.1*
Change from MYEFO	**19.4**	**20.9**	**27.9**	**10.4**	**25.0**	**103.6**

Having peaked in 2020-21 at 6.5 per cent of GDP, the deficit in the underlying cash balance is expected to narrow to 1.9 per cent of GDP in 2024-25, the fastest 4-year improvement in over 70 years. The deficit is expected to narrow further to 1.6 per cent of GDP ($43.1 billion) in 2025-26. The improvement in the fiscal position is projected to continue across the medium term, with the deficit declining to 0.7 per cent of GDP by 2032-33, less than half the deficit at the end of the medium term at MYEFO.

The Government has transitioned to the medium-term phase of the Economic and Fiscal Strategy in light of the strength of the recovery and having achieved the objective of low unemployment. The time for emergency fiscal support has passed and it is appropriate for fiscal settings to normalise with a focus on growing the economy in order to stabilise and reduce debt.

Consistent with the medium term fiscal strategy, the Government is turning the corner on debt. Both net debt and gross debt as a share of GDP are expected to be significantly lower over the entire forward estimates and medium term than at MYEFO. The improved outlook reflects the benefits of a strong and sustained economic recovery for the underlying cash balance.

Net interest payments also remain low at 0.7 per cent of GDP to 2024-25, rising slightly to 0.9 per cent of GDP in 2025-26 before declining to 0.8 per cent of GDP by the end of the medium term, despite yields rising since MYEFO (Chart 6.2 in *Statement 6*: *Debt Statement*). Given economic growth is projected to be higher than yields, gross debt as a share of GDP is projected to reduce over the medium term notwithstanding ongoing budget deficits.

Despite the considerable fiscal cost of responding to COVID–19, the Australian Government's debt burden remains manageable and Australia continues to have lower debt as a share of its economy than many other advanced economies (see Box 3.4). Australia is one of only nine countries to maintain a AAA credit rating from all 3 major ratings agencies.

Table 3.2: Australian Government general government sector budget aggregates

	Actual	Estimates						Projections
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)	2032-33
	$b	$b	$b	$b	$b	$b	$b	$b
Underlying cash balance	**-134.2**	**-79.8**	**-78.0**	**-56.5**	**-47.1**	**-43.1**	**-224.7**	
Per cent of GDP	-6.5	-3.5	-3.4	-2.4	-1.9	-1.6		-0.7
Receipts	**519.9**	**556.6**	**547.6**	**585.2**	**615.2**	**643.9**	**2,392.0**	
Per cent of GDP	25.1	24.3	23.8	24.7	24.7	24.6		25.8
Tax receipts	**473.9**	**512.5**	**508.4**	**541.8**	**566.6**	**598.2**	**2,215.0**	
Per cent of GDP	22.9	22.4	22.1	22.9	22.8	22.9		23.9
Non-tax receipts	**46.1**	**44.1**	**39.2**	**43.5**	**48.6**	**45.7**	**177.0**	
Per cent of GDP	2.2	1.9	1.7	1.8	2.0	1.7		1.9
Payments(b)	**654.1**	**636.4**	**625.6**	**641.7**	**662.3**	**687.0**	**2,616.6**	
Per cent of GDP	31.6	27.8	27.2	27.1	26.6	26.3		26.5
Gross debt(c)	**817.0**	**906.0**	**977.0**	**1,056.0**	**1,117.0**	**1,169.0**		
Per cent of GDP	39.5	39.5	42.5	44.6	44.9	44.7		40.3
Net debt(d)	**592.2**	**631.5**	**714.9**	**772.1**	**823.3**	**864.7**		
Per cent of GDP	28.6	27.6	31.1	32.6	33.1	33.1		26.9
Net interest payments(e)	**14.3**	**14.9**	**15.1**	**16.9**	**18.0**	**22.4**	**72.3**	
Per cent of GDP	0.7	0.7	0.7	0.7	0.7	0.9		0.8

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net cash flows from financing activities for leases.
(c) Gross debt measures the face value of Australian Government Securities (AGS) on issue.
(d) Net debt is the sum of interest bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).
(e) Net interest payments are equal to the difference between interest payments and interest receipts. The increase in 2025-26 primarily reflects a Treasury Indexed Bond maturing in that year (details can be found in *Statement 6: Debt Statement*).

Economic and Fiscal Strategy

The Government has transitioned to the medium-term phase of the Economic and Fiscal Strategy, acknowledging Australia's strong economic recovery and that the time for emergency fiscal support has passed.

The Government continues to prioritise sustainable, private sector-led growth and job creation, and restoring the fiscal position to ensure that Australia is well placed to respond to future shocks. The Government will also prioritise structural reforms and other measures that expand the economy's supply side capacity. By supporting economic growth over the medium term, the strategy will underpin stronger public finances, guarantee provision of essential services and maintain taxes within the 23.9 per cent tax-to-GDP cap.

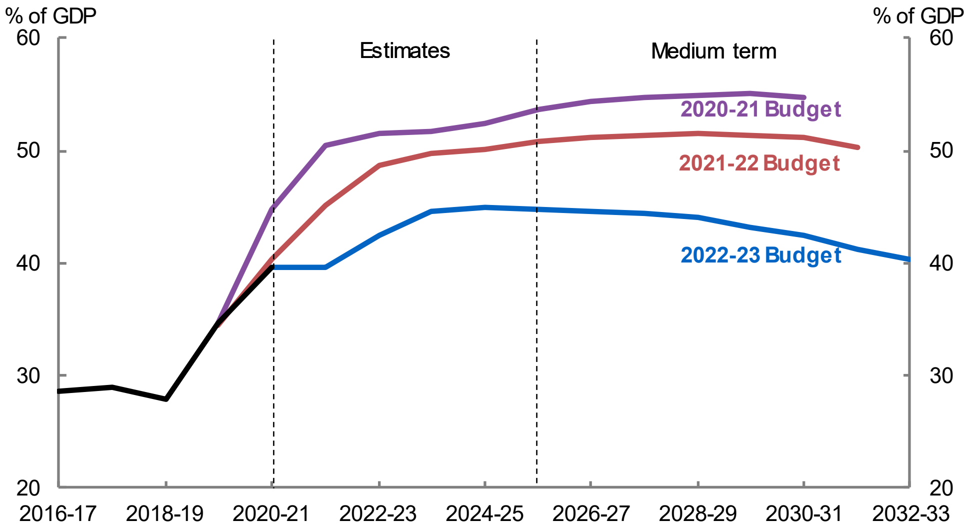
The Government's fiscal policy settings over the past two years have served Australia well. The substantial COVID-19 economic support along with Australia's success in managing the health situation has been instrumental in the strong economic recovery.

While these emergency measures helped the Australian economy through the crisis, economic circumstances mean it is now appropriate to reduce support in a measured way that allows the transition to private sector-led growth to continue. In line with the Government's principles that economic support be temporary and targeted, payments as a share of the economy are expected to decline over the forward estimates as remaining economic support is phased out.

Consistent with the Economic and Fiscal Strategy, debt as a share of GDP stabilises and reduces over the medium term, ensuring Australia is well prepared to respond to future shocks. Net and gross debt as a share of GDP are lower across the entire forward estimates and medium term than at the past two Budgets (Chart 3.1). This reduction in debt shows how focusing on a stronger economy improves the fiscal position. The Government will sustain this momentum by controlling expenditure growth, while maintaining a low tax burden consistent with the tax-to-GDP cap.

The Government's Economic and Fiscal Strategy is consistent with the requirements of the *Charter of Budget Honesty Act 1998* and is set out in Box 3.1.

Chart 3.1: Evolution of gross debt forecasts across budget updates



Source: Treasury

Box 3.1: The Government's Economic and Fiscal Strategy

The Government's Economic and Fiscal Strategy will drive sustainable, private sector-led growth and job creation and ensure Australia is well placed to respond to future shocks.

By supporting economic growth now and over the medium term, the Strategy will underpin stronger public finances over time, guarantee provision of essential services and maintain taxes within the 23.9 per cent tax-to-GDP cap.

Medium term fiscal strategy

Over the medium term, the fiscal strategy will be focused on growing the economy in order to stabilise and reduce debt. This underlines the commitment to budget and balance sheet discipline and provides flexibility to respond to changing economic conditions.

The Strategy is underpinned by the following elements:

- stabilising and then reducing gross and net debt as a share of the economy
- targeting a budget balance, on average, over the course of the economic cycle that is consistent with the debt objective. This will be achieved by:
  - controlling expenditure growth, while maintaining the efficiency and quality of government spending and guaranteeing the delivery of essential services
  - supporting revenue growth through policies that drive earnings and economic growth, while maintaining a sustainable tax burden consistent with a tax-to-GDP ratio at or below 23.9 per cent of GDP
  - using the Government's balance sheet to support productivity-enhancing investments that build a stronger economy, support private investment and create jobs
  - ongoing structural reforms to boost economic growth.

Box 3.2 Recovering and rebuilding from recent floods in Queensland and New South Wales

The recent floods in parts of Queensland and New South Wales have had a devasting impact on many communities. The Government expects to spend more than $6 billion on disaster relief and recovery as a result of these floods, including:

- $2.2 billion to households for income support, temporary accommodation and social services
- $665.0 million to businesses and farmers for repairs, new equipment and support services
- $588.6 million for community clean-up and recovery, including $300 million from the Emergency Response Fund for recovery and post-disaster resilience initiatives.

This support is provided both through direct Commonwealth expenditure, and jointly funded measures through the Australian Government-State Disaster Recovery Funding Arrangements (DRFA).

The DRFA aim to alleviate the financial burden on states and territories for the provision of urgent financial assistance to disaster affected areas. Following a natural disaster the Australian Government may fund up to 75 per cent of the assistance provided by state and territory governments.

Assistance under the DRFA can cover emergency support for individuals, small businesses, primary producers and not-for-profit organisations, reconstruction of essential public assets (like roads and schools), clean-up costs and funding for other community recovery.

The full cost of recovery and rebuilding, including reimbursement of state expenditure, will only become clear once the damage from the floods can be assessed and may not be completely realised for some years. The expected spending includes a provision of $3.0 billion over the forward estimates to accommodate additional Commonwealth expenditure for the floods response.

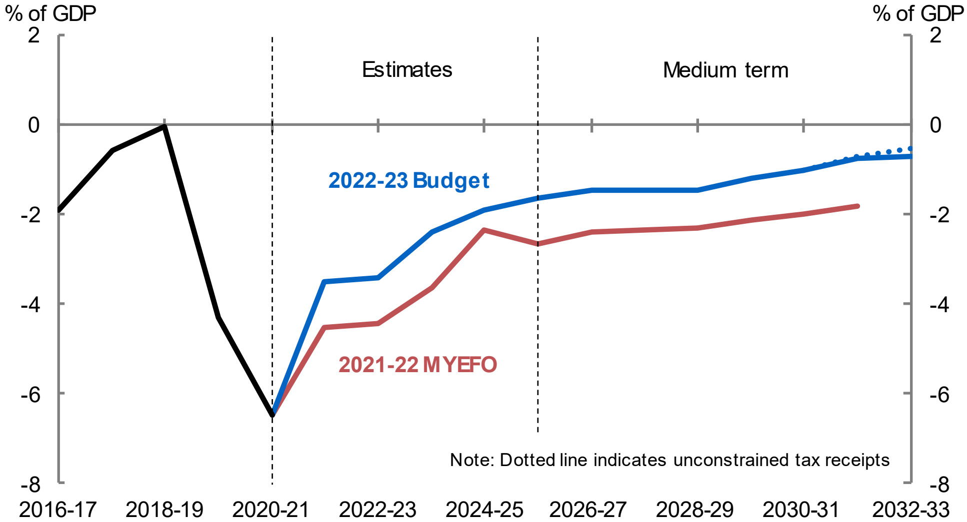
Fiscal outlook

The fiscal outlook has improved materially since MYEFO. This reflects large upgrades to tax receipts flowing from the stronger-than-anticipated labour market recovery and higher-than-assumed near term commodity prices.

Underlying cash balance estimates and projections

An underlying cash deficit of 3.4 per cent of GDP ($78.0 billion) is estimated in 2022-23, improving to an estimated deficit of 1.6 per cent of GDP ($43.1 billion) in 2025-26. The underlying cash balance is projected to continue to improve over the medium term to a deficit of 0.7 per cent of GDP in 2032-33 (Chart 3.2).

Chart 3.2: Underlying cash balance

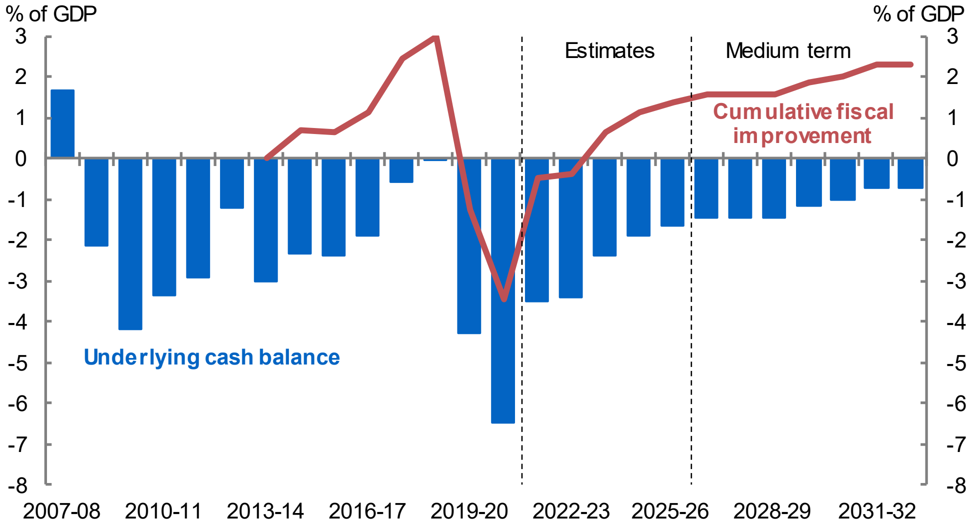


Note: The 2022-23 Budget projections have tax receipts reaching the 23.9 per cent tax-to-GDP cap in 2031-32. Underlying cash balance projections exclude net Future Fund earnings before 2020-21.
Source: Treasury.

Cumulative fiscal improvement since 2013-14

While the fiscal cost of the pandemic has been substantial, a strong economic outlook and adherence to the Economic and Fiscal Strategy is expected to underpin ongoing improvements in the fiscal position. Having peaked in 2020-21, the deficit in the underlying cash balance is now expected to narrow to 1.6 per cent of GDP by the end of the forward estimates. This would be a 1.4 per cent of GDP improvement from the underlying cash balance in 2013-14 (Chart 3.3).

Chart 3.3: Cumulative fiscal improvement from 2013-14 to 2032-33

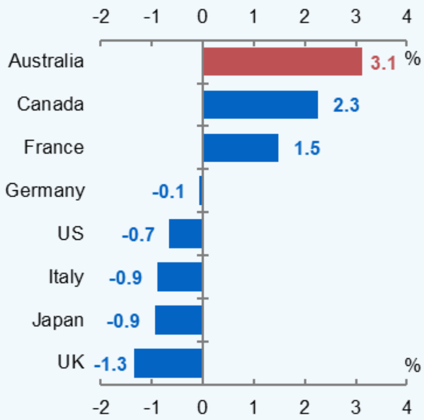


Note: Excludes net Future Fund earnings before 2020-21.
Source: Treasury.

Box 3.3: The fiscal dividend of a strong labour market recovery

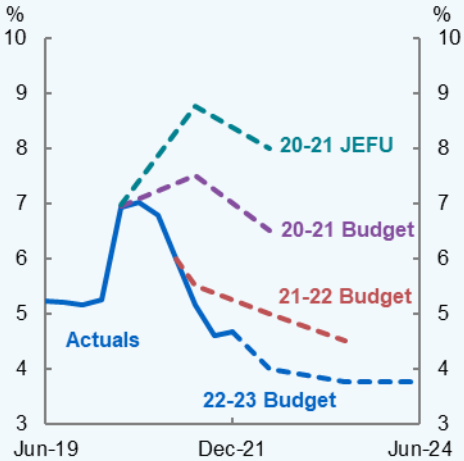
Supported by the Government's economic plan, the Australian labour market has been resilient throughout the pandemic. Employment is now 3.1 per cent above its pre-pandemic level, a greater improvement than any major advanced economy (Chart 3.4). With the labour market consistently exceeding expectations, Australia's unemployment rate forecasts have been successively revised downwards (Chart 3.5).

Chart 3.4: Employment relative to pre-pandemic levels, Australia and G7



Note: Latest available employment data.
Source: Refinitiv, National statistical agencies

Chart 3.5: Evolution of unemployment rate forecasts

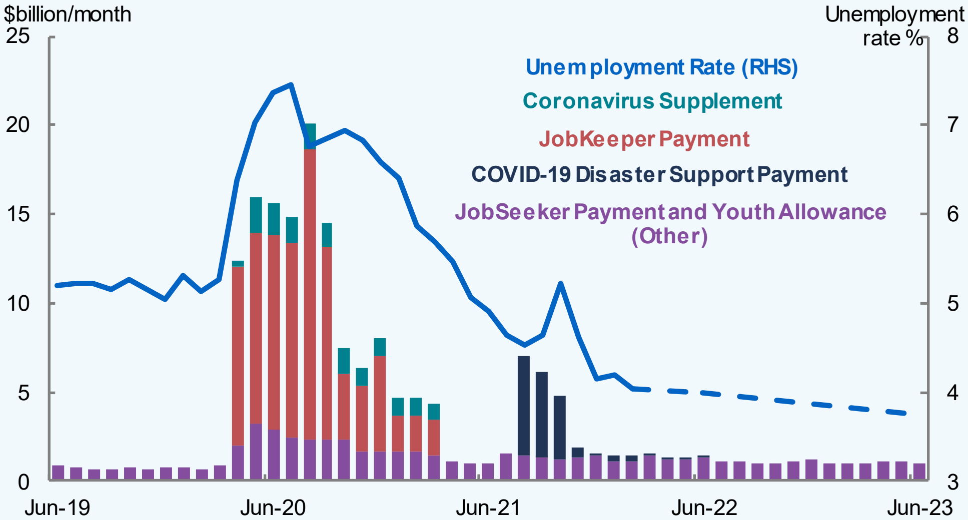


Source: Treasury, ABS Labour Force

The resilience and swift recovery of the Australian labour market was supported by the Government's carefully designed package of measures including JobKeeper and the Coronavirus supplement, and the subsequent introduction of the COVID-19 Disaster Payment. These measures provided needed income support when large parts of the economy were shut down and many people were unable to work their usual hours, while JobKeeper also helped to maintain employee-business connections. The temporary nature of these measures has ensured that economic support has tapered alongside easing health restrictions, allowing a strong private sector-led recovery in the labour market to take place (Chart 3.6).

Box 3.3: The fiscal dividend of a strong labour market recovery (continued)

Chart 3.6 Labour market payments during the pandemic

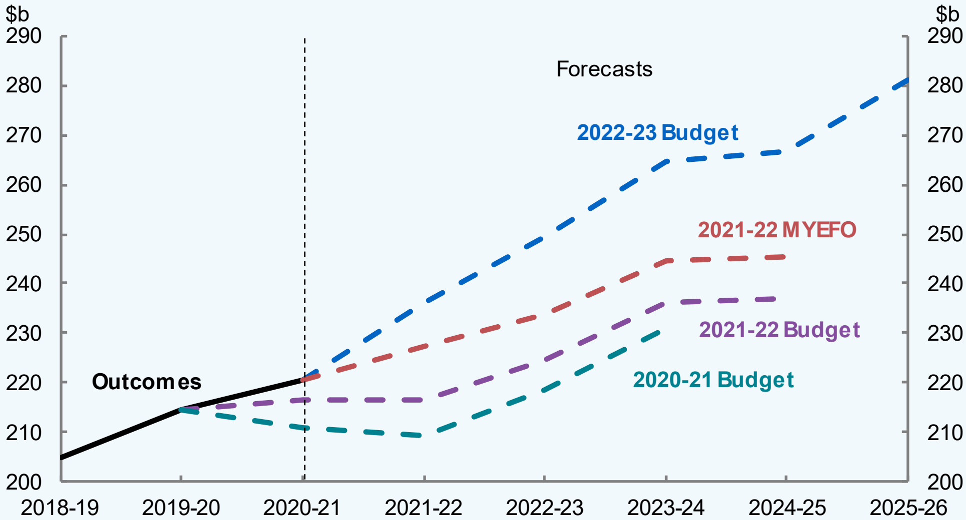


Source: Treasury, ABS Labour Force and Department of Finance.

The strong labour market performance has underpinned better fiscal outcomes. The faster-than-expected decline in the unemployment rate has seen labour market support payments taper more quickly than previously anticipated. At the same time, the stronger-than-anticipated recovery in employment and average wages has driven sizable upgrades to income tax withholding receipts (Chart 3.7). These factors alone contributed $98.5 billion of the improvement in the underlying cash balance over the 5 years to 2025-26 since MYEFO.

Box 3.3: The fiscal dividend of a strong labour market recovery (continued)

Chart 3.7: Evolution of income tax withholding forecasts

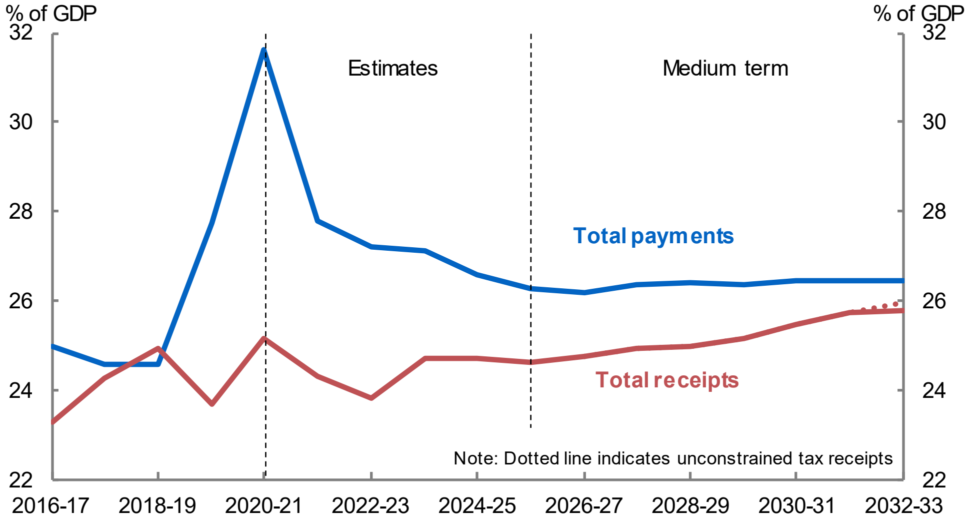


Note: Income tax withholding is collected primarily from salary and wages.
Source: Treasury.

Receipts and payments estimates and projections

Total receipts are expected to be 23.8 per cent of GDP in 2022-23 and are projected to reach 25.8 per cent of GDP in 2032-33. Total payments are expected to fall from 27.2 per cent of GDP in 2022-23 to be 26.3 per cent of GDP in 2025-26. Payments as a share of GDP are projected to remain largely stable across the medium term to be 26.5 per cent in 2032-33 (Chart 3.8).

Chart 3.8: Total payments and receipts



Note: Total receipts includes taxation and non-taxation receipts. The 2022-23 Budget projections have tax receipts reaching the 23.9 per cent tax-to-GDP cap in 2031-32.
Source: Treasury.

Changes in the underlying cash balance over the forward estimates

Parameter and other variations have improved the underlying cash balance by $38.1 billion in 2022-23, and by $114.6 billion over the 4 years to 2025-26. Significantly higher-than-expected tax receipts have been partly offset by the effect of higher inflation and wages forecasts on payments (Table 3.3).

Policy decisions since MYEFO have reduced the underlying cash balance by $17.2 billion in 2022-23 and $30.4 billion over the 4 years to 2025-26. This includes $4.1 billion for a one-off cost of living tax offset of $420 in 2021-22, $3.0 billion to reduce the fuel excise by 50 per cent for 6 months and funding for priority road and rail projects across Australia to support economic recovery and jobs.

Table 3.3: Reconciliation of the general government sector underlying cash balance estimates

	Estimates					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m	$m
2021-22 Budget underlying cash balance	**-106,619**	**-99,266**	**-79,514**	**-56,966**	*	*
Per cent of GDP	-5.0	-4.6	-3.5	-2.4	*	
Changes from 2021-22 Budget to 2021-22 MYEFO						
Effect of policy decisions(b)	-30,702	-6,428	-4,114	-3,556	*	*
Effect of parameter and other variations	38,075	6,835	-840	3,053	*	*
Total variations	**7,372**	**408**	**-4,954**	**-502**	*	*
2021-22 MYEFO underlying cash balance(c)	**-99,247**	**-98,859**	**-84,468**	**-57,469**	**-68,069**	**-308,864**
Per cent of GDP	-4.5	-4.4	-3.6	-2.3	-2.7	
Changes from 2021-22 MYEFO to 2022-23 Budget						
Effect of policy decisions(b)(d)						
Receipts	*-2,342*	*-8,351*	*1,596*	*602*	*739*	*-5,415*
Payments	*6,520*	*8,822*	*5,732*	*5,814*	*4,636*	*25,004*
Total policy decisions impact on underlying cash balance	-8,861	-17,173	-4,136	-5,212	-3,898	-30,419
Effect of parameter and other variations(d)						
Receipts	*26,838*	*39,534*	*33,358*	*23,470*	*29,601*	*125,963*
Payments	*-1,449*	*1,464*	*1,287*	*7,898*	*702*	*11,351*
Total parameter and other variations impact on underlying cash balance	28,287	38,070	32,072	15,573	28,898	114,613
2022-23 Budget underlying cash balance	**-79,821**	**-77,961**	**-56,532**	**-47,108**	**-43,068**	**-224,670**
Per cent of GDP	-3.5	-3.4	-2.4	-1.9	-1.6	

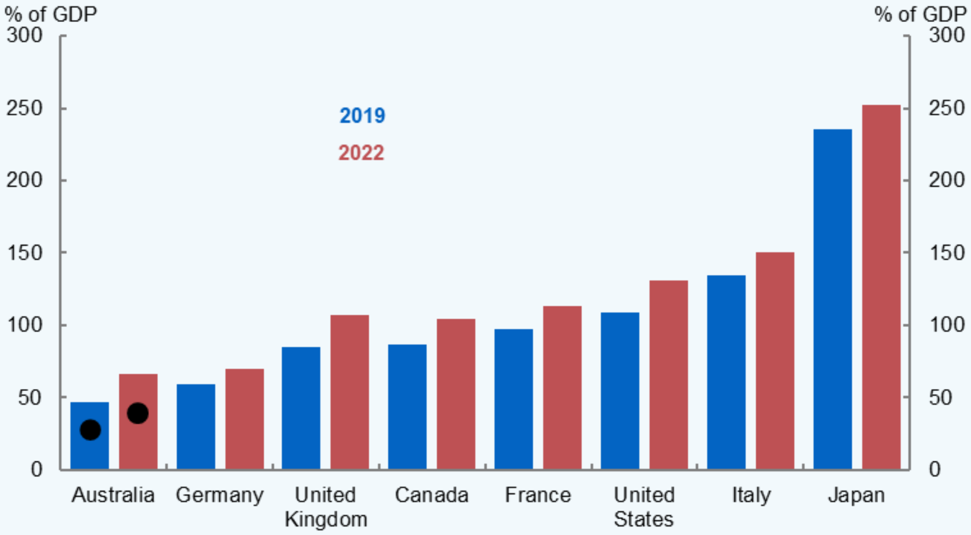
*Data is not published.
(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(c) 2025-26 underlying cash balance as published in the medium-term projections, page 47 of the 2021-22 MYEFO.
(d) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

Box 3.4: Australia's fiscal performance in an international context

The pandemic has left a large mark on government finances globally. General government debt as a share of GDP for the G7 economies is expected to be 17.7 percentage points higher in 2022 than in 2019, while global government debt has reached record levels at almost 100 per cent of GDP according to the IMF.

Relative to international peers, Australia entered the pandemic in a strong fiscal position with the budget in balance and our debt-to-GDP ratio lower than most other advanced economies. This strong fiscal position allowed the Government to to respond to the pandemic with a large package of health and economic measures while maintaining relatively low debt as a share of GDP (Chart 3.9).

Chart 3.9: Gross debt in Australia and G7 economies



Note: Data are prepared by the IMF and include total government debt (inclusive of state and local debt), slightly different assets and liabilities, and are prepared on a calendar year basis; they are not directly comparable to other debt metrics included in this Budget. Black dots show the Treasury estimate for Commonwealth Government gross debt as at 30 June.
Source: IMF Fiscal Monitor October 2021, Treasury.

By ensuring a swift recovery in the economy and thereby tax receipts, the mix of measures chosen by the Government has been a key factor behind Australia's relatively strong fiscal prospects (Box 3.3). In particular, countries that introduced job retention schemes such as JobKeeper have successfully preserved employment and supported incomes, according to OECD research. However, even among economies that introduced job retention schemes, Australia's recovery has been notable. By March 2021, Australia had surpassed its pre-COVID-19 levels of GDP and employment, a better outcome than all major advanced economies.

Box 3.4: Australia's fiscal performance in an international context (continued)

At the same time, the focus on policies that were temporary, targeted and proportionate has allowed government payments to taper and the budget deficit to narrow as the economy recovers. Despite the pandemic, this means Australia's fiscal position remains sound with relatively low levels of debt ensuring that borrowing costs also remain low.

The large increases in debt experienced by many countries during the pandemic will present policy challenges in the years ahead. As well as reducing the fiscal space available to address future crises, higher debt results in higher interest payments as a share of GDP and make fiscal positions more sensitive to future increases in yields.

In this context, some governments have signalled their intention to tighten fiscal policy in 2022 and 2023 as their economies have recovered, while others have yet to define specific targets or timeframes. For Australia, our strong economic recovery has allowed the Government to transition to the task of rebuilding fiscal space earlier than most other economies. Reducing debt over the medium term will help maintain Australia's status as one of just nine countries with a AAA credit rating by all 3 major rating agencies (Table 3.4).

Table 3.4: Credit Ratings of Advanced Economies

	Moody's	S&P	Fitch
Selected countries rated AAA by all 3 agencies			
Australia	AAA	AAA	AAA
Germany	AAA	AAA	AAA
Other selected countries			
Canada	AAA	AAA	AA+
France	AA	AA	AA
Italy	BBB-	BBB	BBB
Japan	A+	A+	A
United Kingdom	AA-	AA	AA-
United States	AAA	AA+	AAA

Note: Moody's data presented is S&P Equivalent.
Source: Bloomberg.

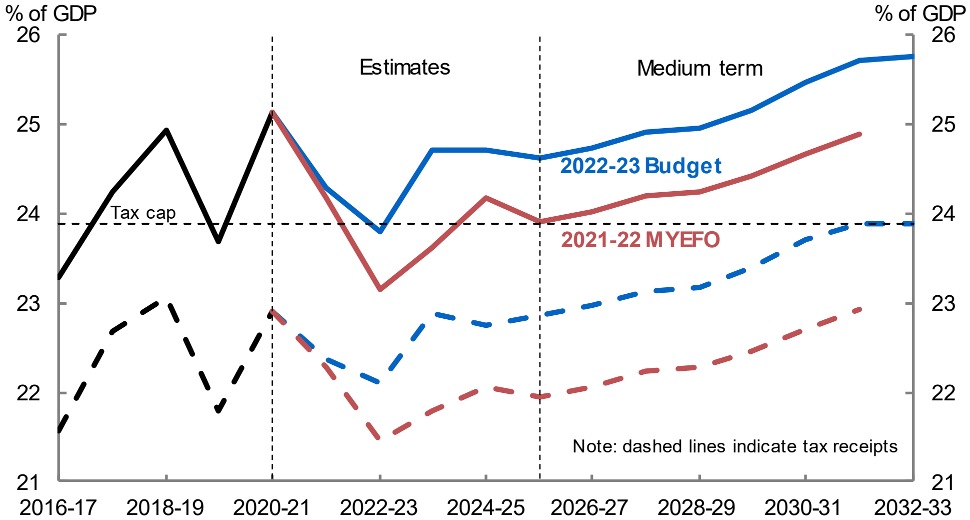
Receipts estimates and projections

Total receipts are projected to have increased since MYEFO by $31.2 billion in 2022-23, and by $120.5 billion over the 4 years to 2025-26. This reflects an expected increase in tax receipts of $126.1 billion over the 4 years to 2025-26, partly offset by a decrease in non-tax receipts. Almost three quarters of the improvement to the tax receipts outlook over the forward estimates has been led by stronger household incomes.

While returning to trend growth rates, nominal wages are projected to remain at a higher level across the medium term than at MYEFO, resulting in higher personal income tax and sustained increases in household consumption. This drives a higher tax-to-GDP ratio over the medium term, reaching the 23.9 per cent cap in 2031-32.

Total receipts are now expected to be 23.8 per cent of GDP in 2022-23 and increase over the forward estimates and medium term to reach 25.8 per cent of GDP in 2032-33. In 2022-23, tax receipts are expected to be 22.1 per cent of GDP and non-tax receipts 1.7 per cent of GDP. Tax receipts are expected to increase to 22.9 per cent of GDP in 2025-26 while non-tax receipts remain at 1.7 per cent of GDP. Tax receipts reach 23.9 per cent of GDP and non-tax receipts 1.9 per cent of GDP by 2032-33 (Chart 3.10).

Chart 3.10: Total Receipts



Note: The 2022-23 Budget projections have tax receipts reaching the 23.9 per cent tax-to-GDP cap in 2031-32.
Source: Treasury.

Receipts policy decisions

Policy decisions since MYEFO have decreased total receipts by $8.4 billion in 2022-23 and by $5.4 billion over the 4 years to 2025-26.

Policy decisions have decreased tax receipts by $7.4 billion over the 4 years to 2025-26. Key tax receipt measures include:

- Providing a one-off cost of living tax offset of $420 for the 2021-22 income year. This measure is estimated to decrease receipts by $4.1 billion over the 4 years to 2025-26
- Reducing the excise and excise equivalent customs duty rate that applies to petrol and diesel by 50 per cent for six months from 30 March 2022. The excise and excise equivalent customs duty rates for all other fuel and petroleum-based products, except aviation fuels, will also be reduced by 50 per cent for 6 months. This measure is estimated to decrease receipts by $5.6 billion over the 2 years to 2022-23, offset by an associated reduction in fuel tax credits and GST payments of $2.7 billion
- Extending the operation of the ATO Tax Avoidance Taskforce by two years to 30 June 2025. The Taskforce was established in 2016 to undertake compliance activities targeting multinationals, large public and private groups, trusts and high wealth individuals. This measure is estimated to increase receipts by $2.1 billion over the 4 years to 2025-26.

Since MYEFO, policy decisions are expected to increase non-taxation receipts by $0.5 billion in 2022-23, and by $2.0 billion over the 4 years to 2025-26, including proceeds arising from the Clean Energy Regulator allowing permit holders to exit their fixed delivery contracts held under the Emissions Reduction Fund.

Further details of Government policy decisions are provided in *Budget Paper No. 2, Budget Measures 2022-23*.

Receipts parameter and other variations

Parameter and other variations have increased total receipts since MYEFO by $39.5 billion in 2022-23 and by $126.0 billion over the 4 years to 2025-26.

The increase in total receipts due to parameter and other variations primarily reflects tax receipts, which have been revised up by $38.7 billion in 2022-23 and by $133.5 billion over the 4 years to 2025-26. The upward tax receipts revision is primarily driven by higher employment and wages leading to higher personal income tax receipts. This supports increased household consumption leading to higher GST receipts across the forward estimates. Elevated bulk commodity prices in the near term have also supported company tax receipts.

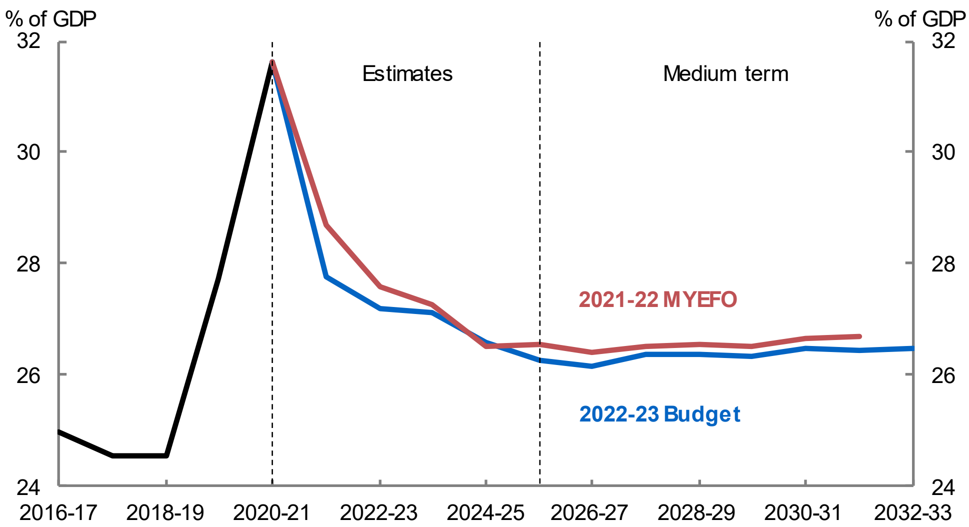
Since MYEFO, parameter and other variations are expected to increase non-taxation receipts by $0.9 billion in 2022-23, and to decrease non-taxation receipts by $7.5 billion over the 4 years to 2025-26. This is primarily due to lower expected dividends from the Reserve Bank of Australia, with the assumed rise in interest rates reducing the RBA's profits. This is partially offset by higher than expected Future Fund earnings and an increase in liquefied natural gas (LNG) royalties.

Further information on expected tax receipts is provided in *Statement 4: Revenue.* Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 7: Forecasting Performance and Sensitivity Analysis*.

Payments estimates and projections

Total payments are expected to fall from 27.2 per cent of GDP in 2022-23 to be 26.3 per cent of GDP in 2025-26. Since MYEFO, total payments have increased by $10.3 billion in 2022-23 and by $36.4 billion over the 4 years to 2025-26.

Chart 3.11: Total Payments



Source: Treasury.

The Government's commitment to guaranteeing essential services, including additional investment in key priorities such as NDIS and aged care has contributed to an increase in payments as a share of the economy since prior to the pandemic. In the absence of further measures, payments as a share of the economy are currently projected to remain broadly stable across the medium term to be 26.5 per cent of GDP in 2032-33. This would see payments remaining at a higher share of the economy than pre-pandemic.

Payment policy decisions

Policy decisions since MYEFO have increased total payments by $8.8 billion in 2022-23 and by $25.0 billion over the 4 years to 2025-26.

Significant measures in this Budget include:

- funding for priority road and rail projects across Australia to support economic recovery and jobs, which is expected to increase payments by $16.8 billion over 10 years from 2021-22

- funding for expanded cyber and intelligence capability to the Australian Signals Directorate to deliver a Resilience, Effects, Defence, Space, Intelligence, Cyber and Enablers package, which is expected to increase payments by $9.9 billion over 10 years from 2022-23

- investment in nationally significant water infrastructure projects to assist in developing regional communities, which is expected to increase payments by $6.9 billion over 12 years from 2021-22, and establishing the Regional Accelerator Program to drive transformative economic growth and productivity in regional areas, which is expected to increase payments by $2.0 billion over 5 years from 2022-23

- investment in strategic projects and programs in the 4 key regions of the Northern Territory, North and Central Queensland, Pilbara region in Western Australia and the Hunter region in New South Wales, with the potential to generate significant growth and employment opportunities in existing and emerging industries. This is expected to increase payments by $7.1 billion over 11 years from 2022-23

- new and amended listings on the Pharmaceutical Benefits Scheme and the Repatriation Pharmaceutical Benefits Scheme, which are expected to increase payments by $2.4 billion over 5 years from 2021-22

- funding to support communities and the recovery from the February – March 2022 floods in Queensland and New South Wales, which is expected to increase payments by $1.9 billion over 5 years from 2021-22

- provision of a $250 Cost of Living Payment to help eligible pensioners, income support recipients, veterans and concession card holders with higher cost of living pressures, which is expected to increase payments by $1.5 billion in 2021-22

- improved regional telecommunications as part of the Government's response to the *2021 Regional Telecommunications Review*, which is expected to increase payments by $1.3 billion over 6 years from 2021-22

- initiatives to reduce all forms of family, domestic and sexual violence against women and children, and to enhance support and recovery services to victims, which is expected to increase payments by $1.3 billion over 6 years from 2021-22.

In addition, since MYEFO the Government has provided funding for Rapid Antigen Tests (RATs) and Personal Protective Equipment (PPE), support to hospitals and health care services, continued funding for the distribution and uptake of COVID-19 vaccines and treatments and support for access to health care services, as it continues to address the health impacts of COVID-19, which is expected to increase payments by over $6.0 billion mainly in 2021-22 and 2022-23.

Payment parameter and other variations

Parameter and other variations since MYEFO have increased payments by $1.5 billion in 2022-23 and by $11.4 billion over the 4 years to 2025-26.

Major increases in payments as a result of parameter and other variations since MYEFO include:

- payments relating to the provision of GST to the states and territories, which are expected to increase by $2.8 billion in 2022-23 ($11.5 billion over the 4 years to 2025-26), consistent with an increase in GST receipts

- payments related to Support for Seniors, which are expected to increase by $870.7 million in 2022-23 ($5.5 billion over the 4 years to 2025-26), largely reflecting a higher than projected rate of indexation

- payments relating to the Financial Support for People with Disability (Disability Support Pension), which are expected to increase by $687.0 million in 2022-23 ($4.2 billion over the 4 years to 2025-26), largely reflecting more Australians receiving support payments and staying on the payment longer

- payments to the states and territories for non-government schools, which are expected to increase by $167.3 million in 2022-23 ($834.9 million over the 4 years to 2025-26), reflecting increased student enrolments in 2021

- payments to the states and territories for public hospitals, which are expected to increase by $92.1 million in 2022-23 ($781.4 million over the 4 years to 2025-26), largely reflecting growth in the volume of hospital services

- payments related to the Pharmaceutical Benefits Scheme (PBS), which are expected to increase by $174.2 million in 2022-23 ($537.2 million over the 4 years to 2025-26), largely reflecting volume increases for subsidised medicines, offset by increases to receipts.

Major decreases in payments as a result of parameter and other variations since MYEFO include:

- payments relating to the Job Seeker Income Support program, which are expected to decrease by $1.8 billion in 2022-23 ($7.7 billion over the 4 years to 2025-26), largely reflecting a lower-than-expected number of recipients due to stronger labour market projections as the economy recovers from the COVID-19 pandemic

- payments to the states and territories for government schools, which are expected to decrease by $138.2 million in 2022-23 ($796.5 million over the 4 years to 2025-26), reflecting decreased student enrolments in 2021.

Consistent with previous budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Details of this draw down are provided in *Statement 5: Expenses and Net Capital Investment*.

A significant proportion of Government spending is adjusted at each update to reflect changes in economic parameters (including prices and wages, unemployment and foreign exchange rates). Table 3.5 shows the impact of improved economic conditions on payments. Prices and wages have increased payments by $19.3 billion over the 4 years to 2025-26, while lower unemployment forecasts have reduced payments by $5.3 billion over the 4 years to 2025-26.

Table 3.5: Reconciliation of payments estimates

		Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m	$m
2021-22 MYEFO payments(b)	**631,377**	**615,308**	**634,721**	**648,634**	**681,629**	**2,580,292**
Changes from 2021-22 MYEFO to 2022-23 Budget						
Effect of policy decisions(c)(e)	6,520	8,822	5,732	5,814	4,636	25,004
Effect of economic parameter variations						
Total economic parameter variations(e)	307	5,285	7,219	7,237	8,497	28,238
Unemployment benefits	*-70*	*-507*	*-1,185*	*-1,660*	*-1,991*	*-5,344*
Prices and wages	*40*	*2,593*	*4,549*	*5,540*	*6,631*	*19,313*
Interest and exchange rates	*30*	*434*	*639*	*763*	*935*	*2,771*
GST payments to the States	*308*	*2,766*	*3,216*	*2,595*	*2,923*	*11,499*
Program specific parameter variations(e)	5,370	-1,315	749	748	598	781
Other variations(d)(e)	-7,127	-2,507	-6,682	-87	-8,393	-17,668
Total variations	**5,070**	**10,285**	**7,019**	**13,712**	**5,339**	**36,355**
2022-23 Budget payments	**636,448**	**625,594**	**641,740**	**662,346**	**686,968**	**2,616,647**

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) 2025-26 payments as published in the medium-term projections, page 48 of the 2021-22 MYEFO.
(c) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(d) Includes public debt interest (including secondary impacts on public debt interest of policy decisions), changes in the conservative bias allowance component in the Contingency Reserve and impacts of changes in program payments for a range of reasons including movement of funds and re-profiling.
(e) A positive number for payments worsens the underlying cash balance.

Headline cash balance estimates

The headline cash balance consists of the underlying cash balance and net cash flows from investments in financial assets for policy purposes (for example, student loans and equity investment in the NBN). Table 3.6 provides further details of differences between the underlying and headline cash balance estimates.

A headline cash deficit of $90.8 billion (3.9 per cent of GDP) is estimated in 2022-23, improving to an estimated deficit of $49.9 billion (1.9 per cent of GDP) in 2025-26 (Table 3.6). This compares with a deficit of $111.1 billion (5.0 per cent of GDP) in 2022-23 estimated at MYEFO.

Net cash flows from investments in financial assets for policy purposes have decreased by $0.6 billion in 2022-23 compared to estimates at MYEFO.

Table 3.6: Reconciliation of general government sector underlying and headline cash balance estimates

		Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m	$m
2022-23 Budget underlying cash balance	**-79,821**	**-77,961**	**-56,532**	**-47,108**	**-43,068**	**-224,670**
***plus* Net cash flows from investments in financial assets for policy purposes**						
Student loans	-3,454	-3,812	-3,684	-3,395	-2,980	-13,871
NBN loan(b)	5,825	0	7,375	0	0	7,375
Trade support loans	-124	-130	-145	-129	-107	-511
CEFC loans and investments	-891	-693	-335	-454	-195	-1,677
Northern Australia Infrastructure Facility	-487	-1,145	-1,956	-1,533	-728	-5,362
Australian Business Securitisation Fund	-648	-251	-501	-502	-3	-1,257
Structured Finance Support Fund	1,218	400	139	0	0	539
Drought and rural assistance loans	-1,912	-252	-88	-73	-30	-442
Official Development Assistance - Multilateral Replenishment	-135	-128	-132	-139	-193	-592
National Housing Finance and Investment Corporation	35	-169	-146	193	-24	-146
COVID-19 Support for Indonesia – loan	100	100	100	100	100	400
Financial Assistance to Papua New Guinea – loan	-614	72	72	72	72	288
Net other(c)	-4,861	-6,849	-4,572	-4,270	-2,731	-18,422
Total net cash flows from investments in financial assets for policy purposes	**-5,949**	**-12,857**	**-3,873**	**-10,130**	**-6,818**	**-33,679**
2022-23 Budget headline cash balance	**-85,770**	**-90,819**	**-60,406**	**-57,238**	**-49,887**	**-258,350**

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) This financial profile represents the actual repayments for 2021-22. As the loan agreement between the Government and NBN Co allows some flexibility in relation to the timing of the repayment, the remaining amount is included in 2023-24.
(c) Net other includes amounts that that have not been itemised for commercial-in-confidence reasons.

The Government's balance sheet

The balance sheet measures changes in the value of the Government's assets and liabilities over time. Balance sheet measures capture the sustainability of government operations which is key to the Economic and Fiscal Strategy. Balance sheet measures have broadly improved since MYEFO, reflecting improvements in the underlying cash balance over the forward estimates and medium term. Together, these measures indicate that the Government's fiscal position remains sustainable.

Different balance sheet metrics measure different groupings of assets and liabilities.

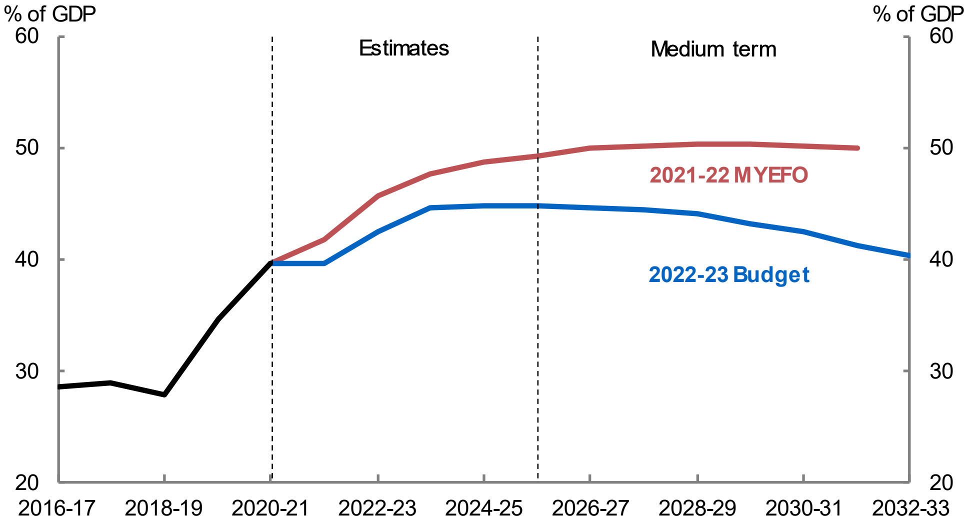
- Gross debt measures the face value of Australian Government Securities (AGS) on issue. This is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.
- Net debt is measured at market value and incorporates specific financial assets and liabilities and provides a broader measure of the financial obligations of the Government than gross debt.
- Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. Both the assets of the Future Fund and the public sector superannuation liability that the Future Fund seeks to finance are included in net financial worth.
- Net worth is the sum of all assets less all liabilities. It includes non–financial assets such as buildings and plant, equipment, and infrastructure.

Further information on the definitions of these metrics is available in *Statement 9: Australian Government Budget Financial Statements*.

Gross debt estimates and projections

Estimates of gross debt as a share of GDP have been successively revised downwards at each update since 2020-21 Budget. Very strong nominal GDP growth in 2021-22 has resulted in the profile for gross debt as a share of GDP remaining flat between 2020-21 and 2021-22, despite the budget deficit. Gross debt is now expected to peak at 44.9 per cent of GDP at 30 June 2025, 5.4 percentage points lower and 4 years earlier than at MYEFO. Gross debt is projected to decline to 40.3 per cent of GDP by the end of the medium term, 9.6 percentage points or $236 billion lower than expected at MYEFO.

Chart 3.12: Gross debt



Source: Australian Office of Financial Management, Treasury.

Since MYEFO, yields have increased with the 10-year bond yield rising from 1.8 to 2.3 per cent. The rise in yields is due to the economic recovery and an increase in expectations for inflation and official interest rates, both domestically and globally. Despite an assumption that yields will rise further over time, debt servicing costs are projected to remain relatively low, with net interest payments rising marginally from 0.7 per cent of GDP in 2022-23 to 0.8 per cent of GDP by the end of the medium term.

The relatively modest impact on debt servicing costs over time primarily reflects 2 factors.[1] First, the cumulative financing requirement through to the end of the medium term has almost halved since MYEFO. Second, the rise in yields only affects the cost of new issuance. Over the past decade, the Australian Office of Financial Management (AOFM) has extended the average maturity of the debt portfolio, reducing the proportion of existing debt needing to be refinanced at market yields.[2] This has seen the weighted average term to maturity on the stock of Treasury Bonds rise from 4.8 years in 2009-10 to around 7.2 years now.

The AOFM has issued over $360 billion of Treasury Bonds since the beginning of the pandemic in March 2020. This was done at historically low interest rates, with a weighted average yield across this issuance of around 1 per cent.

1 For further information on yield assumptions, see Box 2 in Budget Paper No. 1 *Statement 7: Debt Statement* in the 2020-21 Budget.

2 For further information on actions to extend the yield curve, see Box 3.2 in Budget Paper No. 1 *Statement 3: Fiscal Strategy and Outlook* in the 2021-22 Budget.

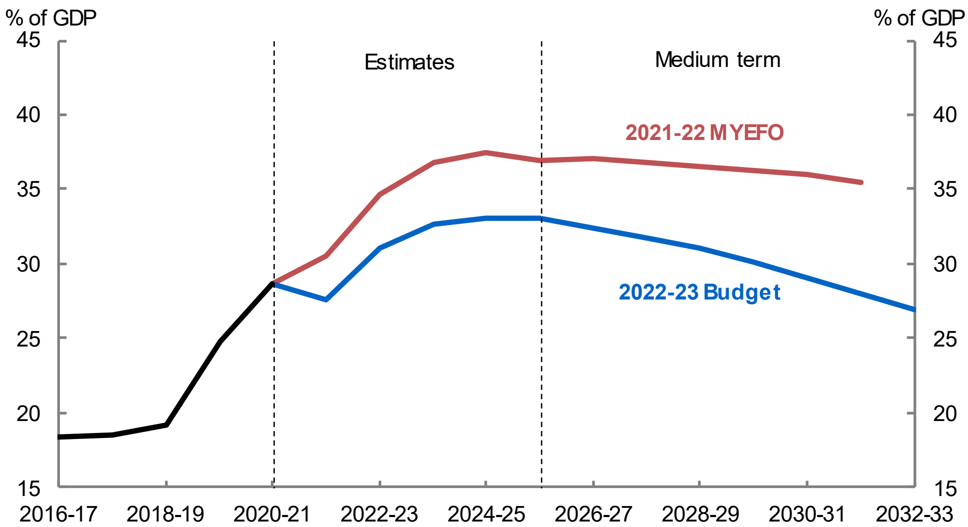
With economic growth projected to exceed the average yield on the debt portfolio for some time, gross debt is projected to stabilise in the forward estimates and decline over the medium term notwithstanding ongoing deficits (Chart 3.12). *Statement 7*: *Sensitivity Analysis* contains information on the impact on gross debt if the future trajectory for yields is higher or lower than projected.

Net debt estimates and projections

Net debt is estimated to decrease from 28.6 per cent of GDP in 2020-21 to 27.6 per cent of GDP in 2021-22, in part due to very strong nominal GDP growth. Net debt is estimated to be 31.1 per cent of GDP ($714.9 billion) at 30 June 2023 (Table 3.7), lower than the estimate of 34.7 per cent of GDP ($773.1 billion) at MYEFO. This primarily reflects the Government's decreased borrowing requirement resulting from the expected improvement in the underlying cash balance and a decrease in the market value of AGS due to higher yields.

Net debt is expected to stabilise at 33.1 per cent of GDP at the end of the forward estimates, before improving over the medium term to reach 26.9 per cent of GDP at 30 June 2033 (Chart 3.13). Net debt as a share of the economy is expected to be lower across the forward estimates and medium term than projected at MYEFO.

Chart 3.13: Net debt



Source: Treasury.

Further information on gross debt and net debt is provided in *Statement 6: Debt Statement*.

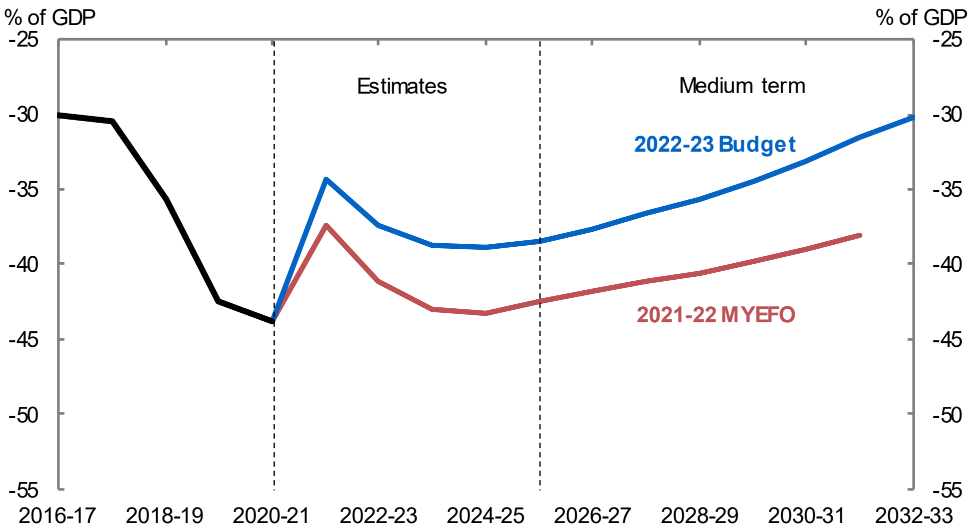
Net financial worth and net worth estimates and projections

Net financial worth is estimated to be -37.4 per cent of GDP (-$859.3 billion) at 30 June 2023 (Table 3.7), compared with the estimate of -41.2 per cent of GDP (-$919.0 billion) at MYEFO.

Net financial worth is expected to deteriorate to –38.9 per cent of GDP at 30 June 2025 before improving thereafter to reach -30.2 per cent of GDP by the end of the medium term (Chart 3.14). At MYEFO, net financial worth was projected to be -38.1 per cent of GDP at 30 June 2032.

The improvement in net financial worth between 30 June 2021 and 30 June 2022 is largely due to a decrease in the value of the Government's defined benefit superannuation liability. This reflects the different discount rates used to value the liability between Budgets and Final Budget Outcomes (see 2020-21 Final Budget Outcome: *Part 1* for more detail).

Chart 3.14: Net financial worth



Source: Treasury.

Net worth is estimated to be -28.6 per cent of GDP (-$657.5 billion) at 30 June 2023 (Table 3.7), compared with the estimate of -32.1 per cent of GDP (-$716.9 billion) at MYEFO. Net worth is projected to deteriorate to -30.0 per cent of GDP at 30 June 2025 before improving to reach –21.6 per cent of GDP at the end of the medium term.

Table 3.7: Australian Government general government sector balance sheet aggregates

	Actual	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	$b	$b	$b	$b	$b	$b
Financial assets	**547.0**	**566.0**	**575.5**	**610.3**	**636.1**	**659.6**
Per cent of GDP	26.5	24.7	25.0	25.8	25.5	25.2
Non-financial assets	**180.7**	**191.6**	**201.8**	**211.5**	**220.2**	**227.5**
Per cent of GDP	8.7	8.4	8.8	8.9	8.8	8.7
Total assets	**727.7**	**757.6**	**777.2**	**821.7**	**856.2**	**887.1**
Per cent of GDP	35.2	33.1	33.8	34.7	34.4	33.9
Total liabilities	**1,453.0**	**1,352.6**	**1,434.8**	**1,528.3**	**1,604.2**	**1,666.2**
Per cent of GDP	70.3	59.0	62.4	64.6	64.4	63.7
Net worth	**-725.2**	**-595.0**	**-657.5**	**-706.5**	**-747.9**	**-779.1**
Per cent of GDP	-35.1	-26.0	-28.6	-29.9	-30.0	-29.8
Net financial worth(a)	**-905.9**	**-786.6**	**-859.3**	**-918.0**	**-968.1**	**-1,006.6**
Per cent of GDP	-43.8	-34.3	-37.4	-38.8	-38.9	-38.5
Gross debt(b)	**817.0**	**906.0**	**977.0**	**1,056.0**	**1,117.0**	**1,169.0**
Per cent of GDP	39.5	39.5	42.5	44.6	44.9	44.7
Net debt(c)	**592.2**	**631.5**	**714.9**	**772.1**	**823.3**	**864.7**
Per cent of GDP	28.6	27.6	31.1	32.6	33.1	33.1
Total interest payments	**17.1**	**17.5**	**17.9**	**20.3**	**21.6**	**26.3**
Per cent of GDP	0.8	0.8	0.8	0.9	0.9	1.0
Net interest payments(d)	**14.3**	**14.9**	**15.1**	**16.9**	**18.0**	**22.4**
Per cent of GDP	0.7	0.7	0.7	0.7	0.7	0.9

(a) Net financial worth equals total financial assets minus total liabilities.
(b) Gross debt measures the face value of Australian Government Securities (AGS) on issue.
(c) Net debt is the sum of interest bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).
(d) Net interest payments are equal to the difference between interest payments and interest receipts. The increase in 2025-26 primarily reflects a Treasury Indexed Bond maturing in that year (details can be found in *Statement 6: Debt Statement*).

Other fiscal aggregates

The following section presents alternative measures of the Government's fiscal position, including, accrual, structural budget balance and primary balance estimates.

Accrual aggregates

Net operating balance estimates

The net operating balance is an accrual measure, reflecting revenue minus expenses. It excludes the impact of the Commonwealth's net new capital expenditure.

The net operating balance is expected to be a deficit of $67.5 billion (2.9 per cent of GDP) in 2022-23 (Table 3.8), compared to an expected deficit of $86.0 billion (3.9 per cent of GDP) in MYEFO. The net operating balance has improved by $52.5 billion over the 3 years to 2024-25 since MYEFO.

Table 3.8: Australian Government general government sector accrual aggregates

	Actual	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Revenue	**523.0**	**566.4**	**560.9**	**595.7**	**621.7**	**655.2**	**2,433.6**
Per cent of GDP	25.3	24.7	24.4	25.2	25.0	25.1	
Expenses	**651.9**	**639.6**	**628.5**	**643.8**	**665.4**	**686.8**	**2,624.5**
Per cent of GDP	31.5	27.9	27.3	27.2	26.7	26.3	
Net operating balance	**-128.9**	**-73.2**	**-67.5**	**-48.2**	**-43.6**	**-31.6**	**-190.9**
Per cent of GDP	-6.2	-3.2	-2.9	-2.0	-1.8	-1.2	
Net capital investment	**7.2**	**11.1**	**11.3**	**10.6**	**7.4**	**8.2**	**37.5**
Per cent of GDP	0.3	0.5	0.5	0.4	0.3	0.3	
Fiscal balance	**-136.1**	**-84.2**	**-78.8**	**-58.8**	**-51.1**	**-39.8**	**-228.4**
Per cent of GDP	-6.6	-3.7	-3.4	-2.5	-2.1	-1.5	

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.

Table 3.9 provides a reconciliation of net operating balance estimates, including the impact of policy decisions and parameter and other variations on revenue and expenses since MYEFO. The drivers of movements in the net operating balance estimates are largely the same as for the underlying cash balance.

Table 3.9: Reconciliation of general government sector net operating balance estimates

	Estimates					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m	$m
2021-22 Budget net operating balance	**-92,713**	**-90,233**	**-70,178**	**-55,736**	*	*
Per cent of GDP	-4.3	-4.1	-3.1	-2.3		
Changes from 2021-22 Budget to 2021-22 MYEFO						
Effect of policy decisions(b)	-31,653	-6,012	-4,021	-3,353	*	*
Effect of parameter and other variations	33,056	10,272	1,585	5,853	*	*
Total variations	**1,403**	**4,260**	**-2,436**	**2,501**	*	*
2021-22 MYEFO net operating balance	**-91,310**	**-85,973**	**-72,614**	**-53,235**	*	*
Per cent of GDP	-4.1	-3.9	-3.1	-2.2		
Changes from 2021-22 MYEFO to 2022-23 Budget						
Effect of policy decisions(b)(c)						
Revenue	*-2,379*	*-8,318*	*2,305*	*1,081*	*260*	*-4,672*
Expenses	*5,673*	*7,897*	*5,852*	*6,094*	*5,265*	*25,108*
Total policy decisions impact on net operating balance	-8,052	-16,214	-3,547	-5,013	-5,005	-29,780
Effect of parameter and other variations(c)						
Revenue	*26,268*	*38,924*	*29,386*	*23,337*	*	*
Expenses	*58*	*4,259*	*1,398*	*8,717*	*	*
Total parameter and other variations impact on net operating balance	26,209	34,665	27,987	14,620	*	*
2022-23 Budget net operating balance	**-73,153**	**-67,522**	**-48,174**	**-43,629**	**-31,607**	**-190,931**
Per cent of GDP	-3.2	-2.9	-2.0	-1.8	-1.2	
Net capital investment						
Effect of net capital investment(d)	11,092	11,319	10,580	7,443	8,172	37,515
2022-23 Budget fiscal balance	**-84,245**	**-78,841**	**-58,754**	**-51,072**	**-39,779**	**-228,447**
Per cent of GDP	-3.7	-3.4	-2.5	-2.1	-1.5	

*Data is not available.
(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(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 revenue improves the net operating balance, while a positive number for expenses worsens the net operating balance.
(d) A positive number for net capital investment worsens the fiscal balance.

Revenue estimates

Total revenue has been revised up by $30.6 billion in 2022-23 and by $86.7 billion over the 3 years to 2024-25 since MYEFO. The revenue estimates are the accrual accounting equivalent of the cash-based receipts estimates. Changes in revenue are generally driven by the same factors as receipts.

Revenue amounts are usually higher than the cash equivalents as they include amounts that a taxpayer is liable to pay but has not paid. The differences between the accrual and cash amounts therefore generally reflect timing differences.

Expense estimates

Total expenses have been revised up by $12.2 billion in 2022-23 and by $34.2 billion over 3 years to 2024-25 since MYEFO. The expenses estimates are the accrual accounting equivalent of the cash-based payments estimates.

Movements in expenses over the forward estimates are broadly consistent with movements in cash payments. The key exceptions include:

- Superannuation benefits programs (civilian and military), where there is a timing difference with the expense accruing during employment and cash payments occurring during retirement.

- Purchases of non-financial assets, which are included in cash payments but not in accrual expenses. The expense estimates include depreciation of non-financial assets rather than recognising the impact at the time of purchase.

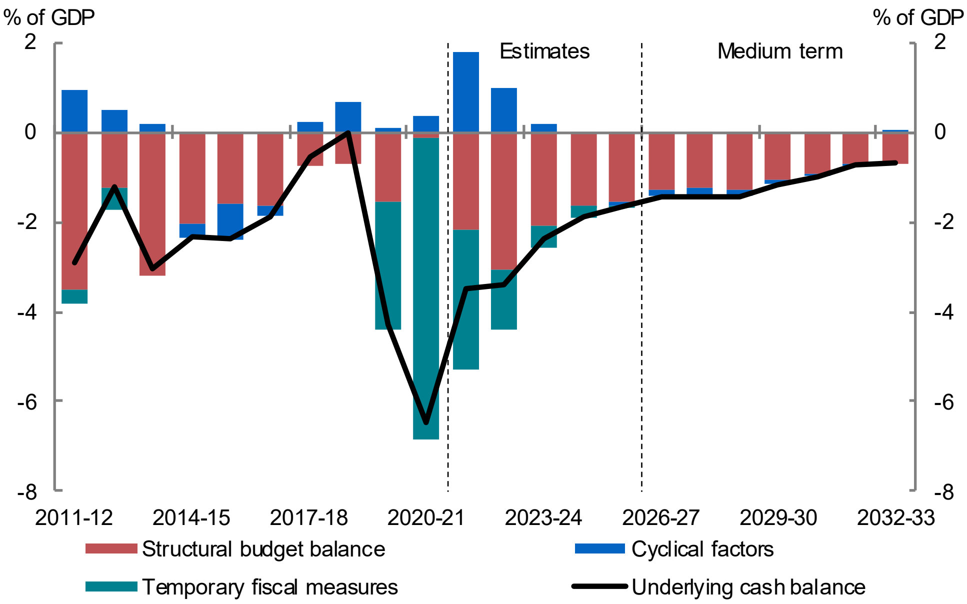
Detailed information on expenses can be found in *Statement 5: Expenses and Net Capital Investment.*

Structural budget balance estimates

Estimates of the structural budget balance adjust for temporary factors that influence the underlying cash balance. By removing these factors, the structural budget balance can provide broad insights into the sustainability of fiscal settings. Because it is estimated rather than observed, the structural budget balance is sensitive to the assumptions and parameters that underpin it. Due to the pandemic and recent volatility in commodity prices, there is greater than usual uncertainty around estimates of the structural budget balance.

The underlying cash balance is projected to steadily improve over the forward estimates as temporary fiscal support measures unwind (Chart 3.15). Cyclical factors are estimated to contribute to the underlying cash balance in the near term, driven by commodity prices which are expected to be well above their assumed long-run levels. This positive contribution is projected to recede as commodity prices return to their assumed long-run levels, in line with the prudent approach adopted in the Budget, and economic activity returns to its potential level.

Chart 3.15: Structural budget balance



Note: The presentation of the structural budget balance chart has been adjusted to separate the budgetary impact of temporary measures from structural factors. This approach follows the methodology detailed in Treasury Working Paper 2013-01. 'Temporary measures' comprise selected direct economic and health support measures implemented following the onset of the COVID-19 pandemic. The 'cyclical factors' component comprises the estimated impact on the underlying cash balance from automatic stabilisers and cyclical movements in asset and commodity prices.

Source: Treasury.

The structural budget balance has undergone a deterioration since the onset of the pandemic, with a deficit projected to persist over the forward estimates and medium term. This reflects the major investment in essential services that the Government has undertaken in recent years in areas such as the NDIS and aged care. An increase in interest payments also contributes to the higher payments profile over the medium term, reflecting the increased levels of debt accumulated as a result of the pandemic.

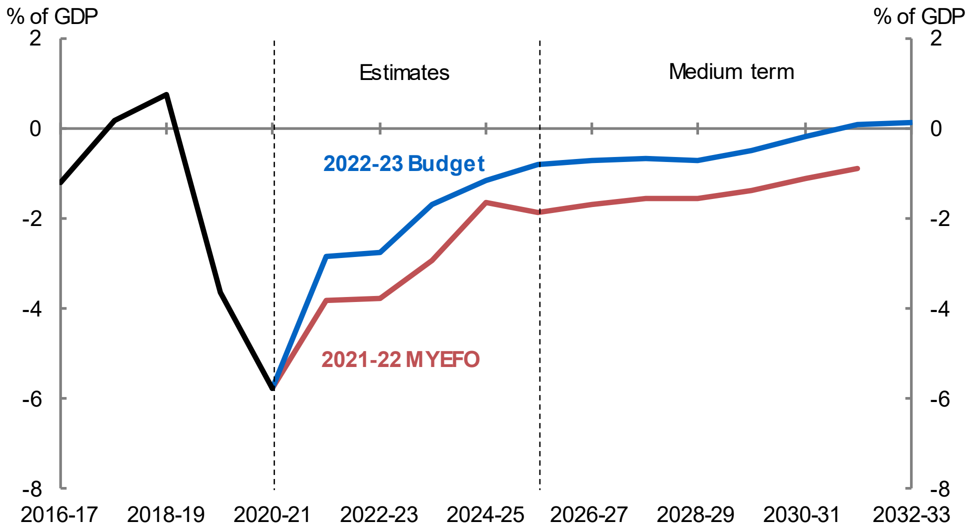
The structural budget deficit is smaller across the forward estimates and medium term than estimated in MYEFO. This largely reflects a stronger outlook for economic conditions and labour income compared with MYEFO, which drive higher tax receipts. The structural budget balance is projected to improve over the medium term, consistent with the outlook for the underlying cash balance.

Primary balance estimates

The primary balance includes the same expenditure and receipts as the underlying cash balance but excludes interest payments and receipts. By excluding net interest, the primary balance can highlight imbalances between government receipts and spending.

The primary balance is expected to be a deficit of 2.7 per cent of GDP ($62.9 billion) in 2022-23 and improve to a deficit of 0.8 per cent of GDP ($20.7 billion) in 2025-26. The primary balance is projected to improve to a surplus of 0.1 per cent of GDP by the end of the medium term, compared to a deficit of 0.9 per cent of GDP at MYEFO (Chart 3.16).

Chart 3.16: Primary cash balance



Source: Treasury.