Statement 3:
Fiscal Strategy and Outlook

The Government's responsible economic and fiscal management is delivering a stronger, and more sustainable fiscal position. A budget surplus is now forecast in 2022–23, ahead of most major advanced economies, with smaller deficits and lower debt in each year of the forward estimates, compared to October. It achieves this while providing targeted cost of living relief, investing in a stronger, more secure economy, sharing opportunities in our society, and dealing with a legacy of unfunded programs.

The Government is returning most of the improvements in tax receipts to the budget. 87 per cent of tax upgrades in the past 2 Budgets are being returned (82 per cent in this Budget). The tax upgrades returned in each of the past 2 Budgets have been among the strongest on record. The Government's spending restraint has limited real payments growth to an average 0.6 per cent over 5 years from 2022–23 to 2026–27.

Returning revenue upgrades and spending restraint delivers a significant improvement in the fiscal outlook. The underlying cash balance is now expected to be in surplus in 2022–23, an improvement of $41.1 billion since October, and $82.1 billion since coming to government. This extraordinary fiscal turnaround sees the Australian Government forecast a surplus budget before most of the major advanced economies. A deficit of $13.9 billion (0.5 per cent of GDP) is expected in 2023–24, a $30.1 billion improvement on the October Budget. Over 5 years from 2022–23 to 2026–27, there is a cumulative improvement in the underlying cash balance of $125.9 billion.

Tax receipts, excluding new policies and GST, have been revised up by $114.2 billion over 5 years from 2022–23 to 2026–27. Almost 60 per cent of the upgrade occurs in 2022–23 and 2023–24, reflecting a strong labour market, a pick-up in wage growth, and ongoing high commodity prices. The strength of tax receipts is expected to moderate from 2024–25 as economic growth slows, labour market conditions ease and as commodity prices return to long-run levels.

The Budget addresses legacy issues inherited from the previous Government while delivering responsible and targeted cost of living relief. To help offset additional spending, the Government has identified $32.5 billion of budget improvements, bringing the total over the 2 budgets to $61.0 billion. This avoids fiscal policy adding to inflationary pressures while they are at their highest.

Since the October Budget, the fiscal position has improved across the medium term. The deficit is now projected to be just 0.2 per cent of GDP in 2033–34. Lower deficits delivered in the Budget reduce the need to borrow and so gross debt peaks sooner, in 2025–26, and lower than projected in October.

Structural challenges persist over the next decade. The medium-term outlook remains under pressure from fast-growing payments, including interest, the NDIS, defence, health and aged care. The Government is taking meaningful steps to reduce the structural deficit, including through moderating growth in NDIS spending and a fairer, more sustainable tax system.

Statement contents

Statement 3: Fiscal Strategy and Outlook

Since the October Budget, there has been a substantial improvement in the fiscal outlook. This is a direct outcome of the Government's strategy of returning revenue upgrades to the budget, while also delivering responsible and targeted cost of living relief, investing in a stronger, more secure economy, spreading opportunity and securing essential services.

The Government has also identified $32.5 billion in budget improvements, including $17.8 billion in spending reprioritisations over the 5 years to 2026–27.

The underlying cash balance is expected to be a surplus of $4.2 billion (0.2 per cent of GDP) in 2022–23, the first surplus since 2007–08. A deficit of $13.9 billion (0.5 per cent of GDP) is expected in 2023–24. This is $30.1 billion lower than expected in October. The underlying cash balance has improved by $125.9 billion over 5 years from 2022–23 to 2026–27.

Lower deficits delivered in the Budget reduce the need to borrow and, as a result, gross debt peaks sooner and debt is lower than projected in October. Gross debt is now forecast to peak at 36.5 per cent of GDP in 2025–26, five years earlier than the 46.9 per cent of GDP peak forecast in the October Budget for 2030–31.

Table 3.1 presents estimates and projections of the key budget aggregates.

Table 3.1: Australian Government general government sector budget aggregate

	Actual	Estimates					Projections
	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total(a)	2033–34
	$b	$b	$b	$b	$b	$b	$b	% of GDP
Underlying cash balance	**-32.0**	**4.2**	**-13.9**	**-35.1**	**-36.6**	**-28.5**	**-109.9**	
Per cent of GDP	-1.4	0.2	-0.5	-1.3	-1.3	-1.0		-0.2
Receipts	**584.4**	**635.6**	**668.1**	**671.2**	**700.9**	**735.1**	**3,411.0**	
Per cent of GDP	25.3	25.0	25.9	25.4	25.2	25.2		26.3
Tax receipts	**536.6**	**588.1**	**616.3**	**614.3**	**647.8**	**680.7**	**3,147.2**	
Per cent of GDP	23.2	23.1	23.9	23.3	23.3	23.3		24.4
Non-tax receipts	**47.8**	**47.5**	**51.9**	**56.9**	**53.1**	**54.4**	**263.8**	
Per cent of GDP	2.1	1.9	2.0	2.2	1.9	1.9		1.9
Payments(b)	**616.3**	**631.4**	**682.1**	**706.3**	**737.5**	**763.6**	**3,520.9**	
Per cent of GDP	26.7	24.8	26.5	26.8	26.6	26.1		26.4
Gross debt(c)	**895.3**	**887.0**	**923.0**	**958.0**	**1,015.0**	**1,067.0**		
Per cent of GDP	38.8	34.9	35.8	36.3	36.5	36.5		32.3
Net debt(d)	**515.6**	**548.6**	**574.9**	**620.6**	**665.2**	**702.9**		
Per cent of GDP	22.3	21.6	22.3	23.5	24.0	24.1		19.9
Net interest payments(e)	**15.0**	**12.7**	**13.4**	**15.2**	**21.3**	**20.0**	**82.5**	
Per cent of GDP	0.6	0.5	0.5	0.6	0.8	0.7		0.8

a) Total is equal to the sum of amounts from 2022–23 to 2026–27.
b) Equivalent to cash payments for operating activities, purchases of non-financial assets and principal payments of lease liabilities.
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 7: Debt Statement).

Economic and Fiscal Strategy

The Government's Economic and Fiscal Strategy is making the economy and budget stronger, more resilient and more sustainable over the medium term (Box 3.1). The Strategy is consistent with the requirements of the *Charter of Budget Honesty Act 1998*, with progress reviewed each budget update.

Box 3.1: The Government's Economic and Fiscal Strategy

The Government's Economic and Fiscal Strategy will make the economy more resilient and put the budget on a more sustainable footing over time.

The strategy is focused on the objectives of strong, inclusive and sustainable economic growth, full employment, growing real wages, ensuring women's economic participation and equality, and improving living standards for all Australians.

The Government will improve the budget position in a measured way, consistent with the overarching goal of reducing gross debt as a share of the economy over time. This approach enables fiscal policy to respond to changes in economic conditions to support macroeconomic stability, including in times of high inflation.

These objectives will be achieved by investments that grow the economy and expand productive capacity, and budget discipline that restrains spending growth and enhances the quality of spending. The budget will be improved in a manner consistent with the objective of maintaining full employment, while continuing to deliver essential services.

Putting the budget on a more sustainable footing will ensure the Government has the fiscal buffers to withstand economic shocks and better manage the fiscal pressures from an ageing population and climate change.

These commitments will be underpinned by the following elements:

- Allowing tax receipts and income support to respond in line with changes in the economy and directing the majority of improvements in tax receipts to budget repair.
- Limiting growth in spending until gross debt as a share of GDP is on a downwards trajectory, while growth prospects are sound and unemployment is low.
- Improving the efficiency, quality and sustainability of spending.
- Focusing new spending on investments and reforms that build the capability of our people, expand the productive capacity of our economy, and support action on climate change.
- Delivering a tax system that funds government services in an efficient, fair and sustainable way.

Delivering on the Economic and Fiscal Strategy

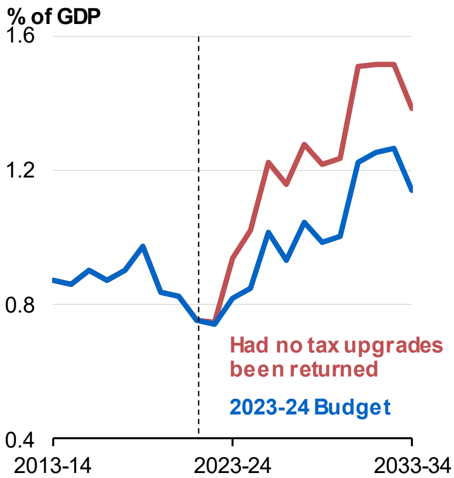
This Budget delivers on the Government's Economic and Fiscal Strategy by:

- Returning to the budget a cumulative 87 per cent of tax receipt upgrades (excluding GST) from estimates variations over the forward estimates across this and the October Budget, including 82 per cent in this Budget.
  - Returning upgrades over the past 2 Budgets will avoid $83 billion in interest payments over the 12 years to 2033–34 (Chart 3.1). It also means gross debt as a share of GDP will be 7.1 percentage points lower in 2033–34 (Chart 3.2).
- Supporting budget repair through responsible, calibrated improvements to spending and strengthening the fairness and integrity of the tax system. Together with improvements from the October Budget, the Government has identified $61.0 billion in budget improvements, $32.5 billion in this Budget.
  - This Budget has identified $17.8 billion in spending reprioritisations over the 5 years to 2026–27. This brings the total to $39.8 billion across 2 budgets.
- Limiting growth in payments, with real payments growth expected to average 0.6 per cent a year over the 5 years from 2022–23 to 2026–27.
  - This compares to an average spending growth of around 4.0 per cent prior to the Global Financial Crisis (2000–01 to 2007–08) and 2.2 per cent prior to the pandemic (2011–12 to 2018–19).

This combination of returning tax receipt upgrades and spending restraint means that fiscal policy is not adding to inflationary pressures (Box 3.2) and is supporting budget repair and long-term fiscal sustainability.

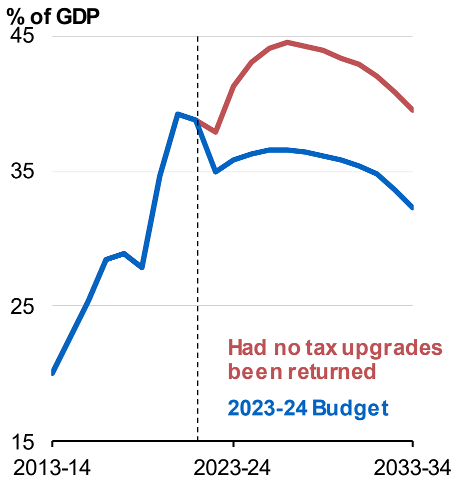
- Since the 2022 Pre-Election Fiscal Outlook (PEFO), the underlying cash balance has improved by a cumulative $125 billion (2.4 per cent of GDP) over the two years to 2023–24.
- Gross debt is now expected to peak at 36.5 per cent of GDP in 2025–26, 10.4 percentage points lower and 5 years earlier than at the October Budget. It will then reduce to 32.3 per cent of GDP by the end of the medium term.

Chart 3.1 Total interest payments



Source: Treasury, AOFM.

Chart 3.2: Gross debt



Source: Treasury, AOFM.

Box 3.2: Fiscal and monetary policy in a period of high inflation

The peak in inflation appears to have passed in Australia. Annual inflation has fallen from its peak of 7.8 per cent over the year to the December quarter 2022 to 7.0 per cent over the year to the March quarter 2023. Inflation is expected to moderate further, driven by easing global price shocks and supply constraints and supported by policy measures such as the Energy Price Relief Plan. Inflation is expected to return to the target band in 2024–25.

In response to above-target inflation, the Reserve Bank of Australia has embarked on its sharpest tightening cycle since the introduction of inflation targeting in 1993. The cash rate has increased by a cumulative 375 basis points since May 2022. Monetary policy is known to operate with long and variable lags, meaning the full effects of policy tightening are yet to flow through the economy. Increases to the cash rate since May 2022 will contribute to a slowing in economic growth in 2023–24, and help return supply and demand in the economy to a more sustainable balance.

Fiscal policy plays an important role in managing business cycles alongside monetary policy, particularly when supply disruptions are prevalent because it can better target policies to affected sectors and households. It is especially important that fiscal policy not add unnecessarily to aggregate demand when inflationary pressures are acute.

Fiscal policy is working in line with monetary policy to tackle inflation in the near term. The Government has achieved this through its decision to bank 91 per cent of tax windfalls in 2022–23 and 2023–24, over the past 2 budgets. It has also shown spending restraint, by limiting annual real payments growth to 0.6 per cent on average over the 5 years from 2022–23. This has resulted in the cumulative underlying cash balance being $124.7 billion higher over the two years to 2023–24 than was projected at PEFO.

From 2023–24, the underlying cash balance is forecast to transition back towards its structural deficit position, albeit significantly improved from estimates since the 2022 PEFO, as cyclical factors, such as current high commodity prices, unwind. Restraining spending and returning most revenue upgrades to the budget also helps to ensure the fiscal position is sustainable, with adequate buffers to enable fiscal policy to respond to future crises.

The Government's measures to deliver cost-of-living relief directly reduce the CPI in 2023–24 and are not expected to add to broader inflationary pressures in the economy. These measures are expected to reduce inflation by ¾ of a percentage point in 2023–24.

continued on next page

Box 3.2: Fiscal and monetary policy in a period of high inflation (continued)

The Government is acting through targeted, cost-of-living relief to support low-income Australians, including:

- providing direct energy bill relief for households and small businesses
- reducing out of pocket health costs
- supporting Australians most in need through increases to the rate of working age payments and targeted support for single parents
- increasing Commonwealth Rent Assistance maximum rates by 15 per cent.

Fiscal policy can also bring down inflation by growing supply, for example through productivity-enhancing investment or measures that increase the participation rate. These policies take time to expand production. While they won't offer immediate relief to current inflationary pressures, they improve the productive capacity of the economy over time, allowing it to grow more strongly without generating inflationary pressures. They can also make our economy more resilient to future shocks in our supply chain.

The Government is working to expand the productive capacity of the economy including by:

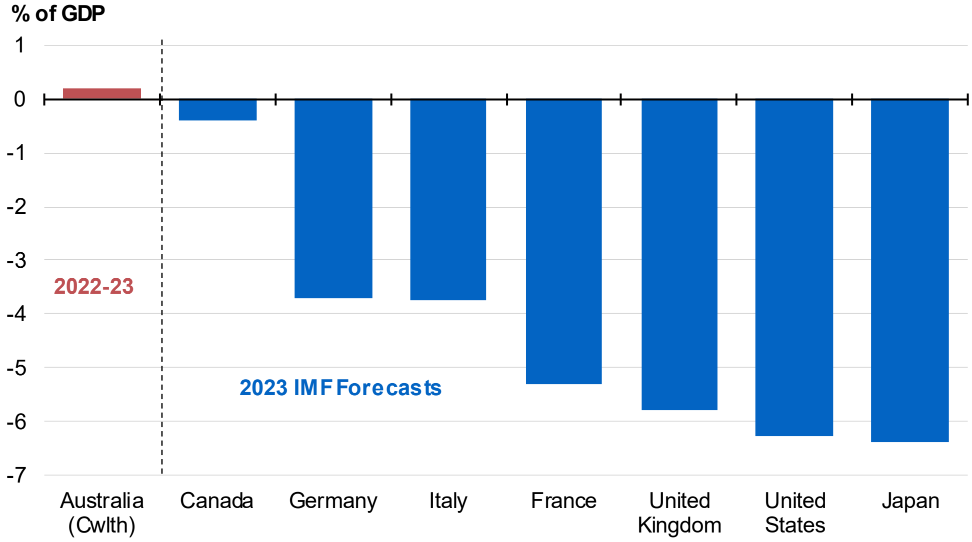
- rebuilding Australia's industrial capability with a focus on priority areas of the Australian economy, including through the National Reconstruction Fund
- supporting the transformation to net zero including through investments to support large scale hydrogen projects to commercialisation through the Hydrogen Headstart
- continuing to improve the sustainability and impact of the Infrastructure Investment Program, and ensuring it is focused on delivering nationally significant land transport infrastructure projects
- improving the affordability of early childhood education and care and expanding Paid Parental Leave
- targeting skilled migration and negotiating a new National Skills Agreement with the states and territories
- supporting competition and innovation through the Consumer Data Right.

Fiscal outlook

Underlying cash balance estimates

The underlying cash balance is estimated to be in surplus by $4.2 billion (0.2 per cent of GDP) in 2022–23, an improvement of $41.1 billion compared to the October Budget and $82.1 billion since the 2022 PEFO. The Australian Government is forecasting a surplus before most of the major advanced economies (Chart 3.3).

Chart 3.3 International comparison of budget balances



Note: Estimates for Australian Commonwealth underlying cash balance have been prepared by Treasury. Overall fiscal balance estimates for other countries are prepared by the IMF on a calendar year basis and include total government fiscal balance (inclusive of state and local net lending). Therefore, care must be taken when trying to reconcile with Treasury Commonwealth estimates (which is exclusive of state and local lending, and calculated on a financial year basis) as they are not directly comparable.

Source: IMF staff estimates contained in the April 2023 Fiscal Monitor and Treasury.

An underlying cash deficit of $13.9 billion (0.5 per cent of GDP) is forecast for 2023–24, a $30.1 billion (1.3 percentage points of GDP) improvement since the October Budget, and a $42.6 billion improvement since the 2022 PEFO.

From 2024–25, the underlying cash deficit is expected to increase before declining to $28.5 billion (1.0 per cent of GDP) in 2026–27. This reflects the moderation in tax upgrades, along with key spending pressures across the forward estimates. The deficit is lower across all years compared to the October Budget. Over 5 years from 2022–23 to 2026–27, the underlying cash balance improves by a cumulative $125.9 billion.

Changes in the underlying cash balance over the forward estimates

The improved fiscal outlook since October largely reflects Government decisions to return tax upgrades to budget.

Over the past 2 Budgets, 87 per cent of tax upgrades are being returned (82 per cent this Budget). The tax upgrades returned in each of the past 2 Budgets have been among the strongest on record. In addition to strengthening the structural fiscal position and rebuilding fiscal buffers, this commitment avoids fiscal policy adding to inflationary pressures while they are at their highest.

Payments in 2022–23 have decreased by $12.7 billion since October. Payments as a share of GDP are lower in every year of the forward estimates, as a result of higher nominal GDP and spending restraint.

Policy decisions since the October Budget have increased the underlying cash deficit by $20.6 billion over 5 years from 2022–23 to 2026–27. Around one half of policy decisions resolve unfunded legacy issues from the previous Government ($7.5 billion) or relate to the ongoing pandemic response ($2.3 billion).

Parameter and other variations since the October Budget have improved the underlying cash balance by $146.5 billion over 5 years from 2022–23 to 2026–27 (Table 3.3).

Addressing Legacy Issues

Payments of $2.3 billion in 2023–24 are required to address ongoing legacy issues left by the former Government. Over 5 years from 2022–23 to 2026–27 there are $7.5 billion in new policy decisions to address legacy issues inherited from the former Government. This includes providing for programs that were underfunded or had terminating funding, including:

- $1.1 billion over 4 years from 2023–24 (up to $3.4 billion over 10 years) for investment in Brisbane 2032 Olympic and Paralympic Games venue infrastructure
- $754.7 million to secure Australia's digital health infrastructure, including the Australian Digital Health Agency and My Health Record
- $804.3 million over 4 years from 2023–24 to 2026–27 to sustainably fund Australia's biosecurity system
- $535.3 million over 4 years from 2023–24 to 2026–27 to provide financial sustainability to the 9 National Collecting Institutions, including the National Library of Australia and the National Gallery of Australia.

Table 3.2: Reconciliation of general government sector underlying cash balance estimates

	Estimates					
	2022–23	2023–24	2024–25	2025–26	2026–27	Total
	$m	$m	$m	$m	$m	$m
2022 PEFO underlying cash balance(a)	**-77,937**	**-56,525**	**-47,093**	**-42,936**	**-39,374**	**-263,864**
Per cent of GDP	-3.4	-2.4	-1.9	-1.6	-1.4	
Changes from 2022 PEFO to 2022–23 October Budget						
Effect of policy decisions(b)	-1,096	747	-2,014	-7,420	*	*
Effect of parameter and other variations	42,181	11,729	-2,240	795	*	*
Total variations(c)	**41,085**	**12,476**	**-4,253**	**-6,625**	**-14,575**	**28,108**
2022–23 October Budget underlying cash balance(c)	**-36,851**	**-44,048**	**-51,347**	**-49,561**	**-53,949**	**-235,756**
Per cent of GDP	-1.5	-1.8	-2.0	-1.8	-1.9	
Changes from 2022–23 October Budget to 2023–24 Budget						
Effect of policy decisions(b)(d)						
Receipts	*125*	*1,757*	*5,378*	*6,413*	*8,382*	*22,055*
Payments	*1,212*	*13,779*	*10,825*	*8,960*	*7,867*	*42,643*
Total policy decisions impact on underlying cash balance	-1,087	-12,022	-5,447	-2,547	515	-20,588
Effect of parameter and other variations(d)						
Receipts	*28,239*	*44,944*	*23,020*	*15,486*	*18,862*	*130,551*
Payments	*-13,901*	*2,792*	*1,284*	*5*	*-6,122*	*-15,941*
Total parameter and other variations impact on underlying cash balance	42,140	42,153	21,736	15,481	24,984	146,492
2023–24 Budget underlying cash balance	**4,202**	**-13,918**	**-35,058**	**-36,627**	**-28,450**	**-109,852**
Per cent of GDP	0.2	-0.5	-1.3	-1.3	-1.0	

*Data is not available.

a) 2026–27 as published in the medium-term projections, pages 10 and 11 of the 2022 PEFO.

b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

c) 2026–27 as published in the medium-term projections, page 81 of Budget Paper No. 1, *Budget Strategy and Outlook October 2022–23*.

d) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

Primary balance estimates

The primary cash balance adjusts the underlying cash balance to exclude interest payments and interest receipts (as these are largely outside government control in the short term). This is a more representative measure of the Government's current fiscal decisions.

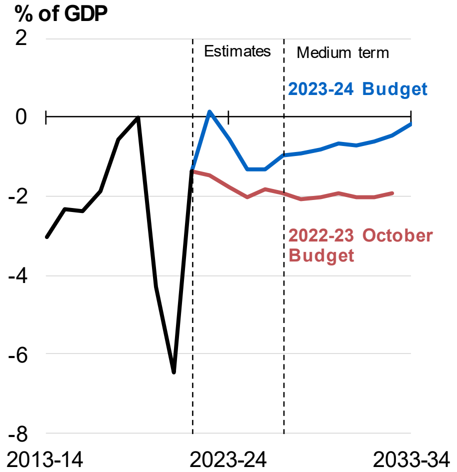
The primary balance is expected to be in surplus by $16.9 billion (0.7 per cent of GDP) in 2022–23 and broadly balanced in 2023–24, reflecting the improved near-term outlook. Since the October Budget, the primary balance has improved $40.1 billion in 2022–23 and $26.9 billion in 2023–24. The underlying cash balance improves more than the primary balance because debt and interest payments (which are excluded from the primary balance calculation) are lower than forecast in the October Budget.

Medium-term projections

The medium-term fiscal outlook has improved considerably since the October Budget. The underlying cash deficit is projected to reach 0.2 per cent of GDP by 2033–34. This reflects the Government's decision to return higher-than-expected tax receipts to the budget, and the flow-on benefit of lower interest payments.

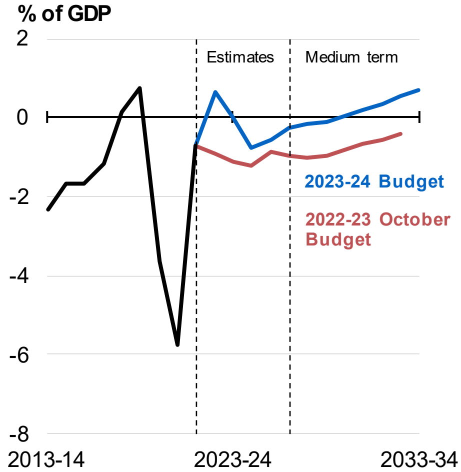
- The underlying cash deficit in 2032–33 is expected to be 0.5 per cent of GDP, 1.5 percentage points smaller than projected at the October Budget (Chart 3.4).
- The primary balance is expected to be in surplus from 2029–30. The primary balance in 2032–33 is expected to be improved by 0.9 percentage point of GDP relative to the October Budget (Chart 3.5).
- As a result, the Government accumulates less debt and pays less interest, with this impact compounding over time. In 2032–33, total interest payments are 0.6 percentage points of GDP lower than projected in the October Budget.

Chart 3.4: Underlying cash balance



Source: Treasury.

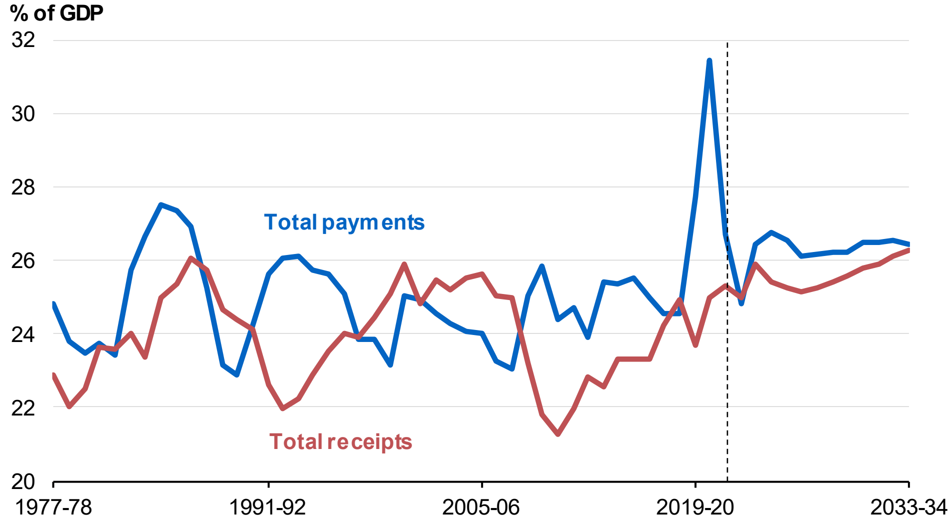
Chart 3.5: Primary cash balance



Source: Treasury.

While improved, the budget remains in underlying cash deficit over the medium term. Payments as a share of GDP are expected to remain elevated above pre-pandemic levels (Chart 3.6).

Chart 3.6: Payments and receipts



Source: Treasury.

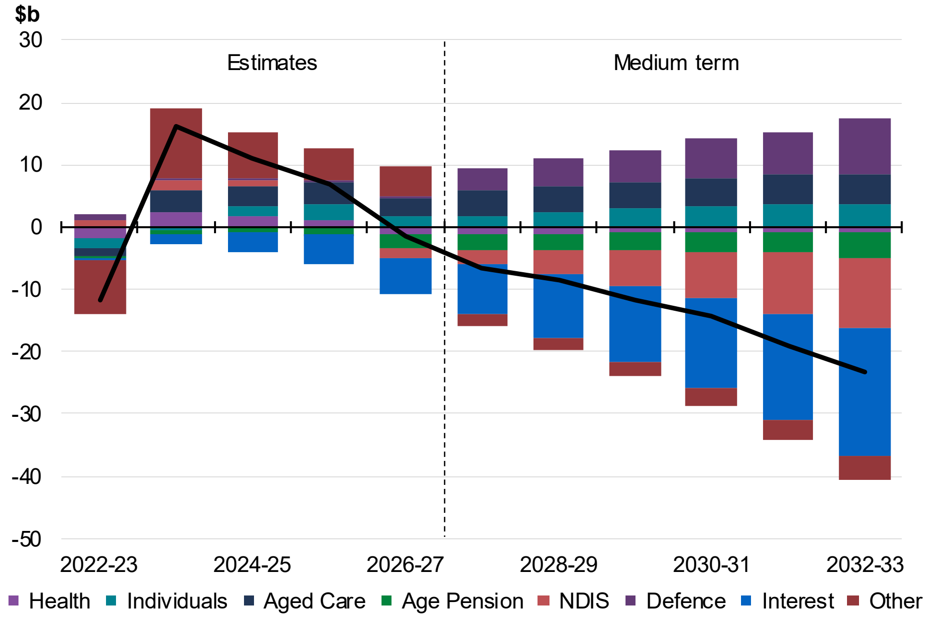
Improvements in the medium-term outlook since the October Budget

The substantial improvement in the medium-term fiscal outlook since the October Budget largely reflects the upwards revision to projected tax receipts, lower interest payments due to lower debt levels and interest rates, and moderation in growth of NDIS costs.

The increase in projected tax receipts reflects stronger employment earnings, that is a result of a larger labour force and higher participation rates. Policy measures that improve the fairness and efficiency of the tax system, such as better targeting superannuation tax concessions and reforms to the Petroleum Resource Rent Tax, are also supporting receipts. Tax receipts as a share of GDP are expected to be 24.2 per cent in 2032–33, 0.1 percentage points higher than projected in October.

Payments as a share of GDP are lower in every year of the forward estimates and across the medium term compared to the October Budget. Payments are expected to be 1.4 percentage points of GDP lower in 2032–33 than in the October Budget. Returning most tax upgrades to the Budget reduces deficits and debt accumulation reducing interest payments. Total interest payments are lower by 0.6 percentage points of GDP in 2032–33. NDIS Commonwealth-funded participant payments are lower by 0.3 percentage points of GDP in 2032–33. (Chart 3.7). Nominal GDP is higher than at October Budget further reducing payments as a share of the economy.

Chart 3.7: Revisions to major payments since the 2022–23 October Budget



Source: Treasury.
Note: Numbers may differ from estimates presented in *Statement 6: Expenses and Net Capital Investment* due to accounting and classification differences. Interest refers to interest payments on Australian Government Securities. NDIS refers to the Commonwealth's contribution to payments for NDIS participant supports.

Growth of the fastest growing major payment categories over the projections period (2023–24 to 2033–34) is lower overall than at October Budget (Chart 3.8).

- NDIS Commonwealth-funded participant payments growth is expected to average 10.4 per cent over the projections period compared to 13.8 per cent in the October Budget (2022–23 to 2032–33). This reflects the commitment of National Cabinet to an NDIS Financial Sustainability Framework to moderate growth in the Scheme costs over time.

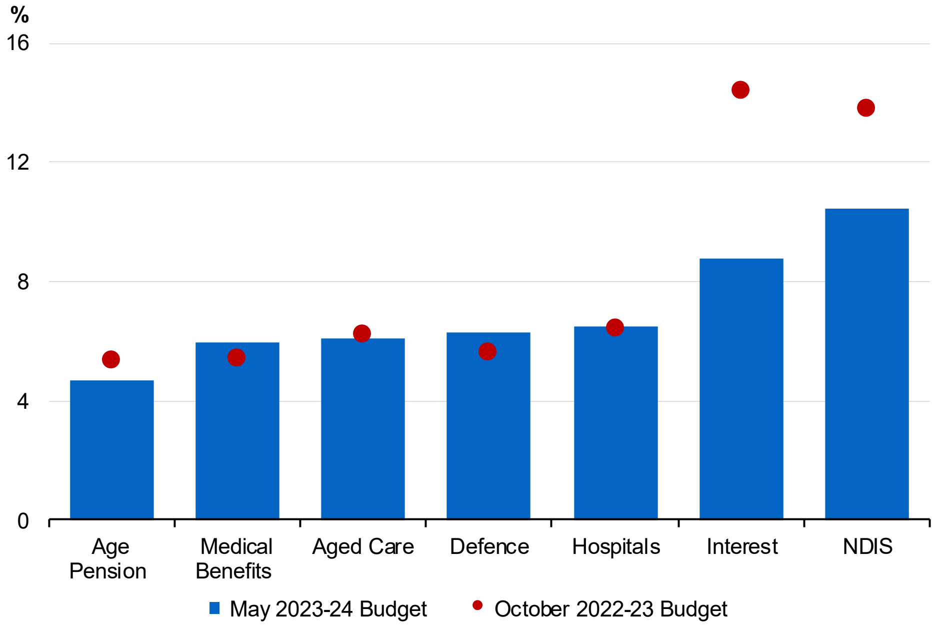
- Interest payments growth is expected to average 8.8 per cent over the projections period compared to 14.4 per cent in the October Budget. This primarily reflects the Government's decision to bank tax receipts upgrades, which has resulted in lower deficits and lower debt, as well as lower assumed yields.

- The Government's commitment to implement the Defence Strategic Review will include increased spending over the medium term, with spending estimated to rise above 2.3 per cent of GDP in 2032–33, based on current GDP projections. Over the next 12 months, Defence is undertaking work to reshape the Defence Integrated Investment Program, in line with the findings and recommendations of the review.

- Hospitals and Medical benefits payments growth are expected to be 6.5 and 6.0 per cent on average, respectively, over the projections period, compared to 6.5 and 5.4 per cent in the October Budget. For Medical benefits, this reflects revised projections for growing demand for health services in the medium term and increased costs of improved medical technology.

- Aged care payments growth is expected to average 6.1 per cent over the projection period compared to 6.2 per cent in the October Budget. This Budget provides similar growth in payments for aged care off a higher base. This reflects the Government's commitment to improve the quality of aged care services and provide funding to support the Fair Work Commission's interim decision in the Aged Care Work Value Case (Box 3.3).

Chart 3.8: Average annual growth in major payments 2023–24 to 2033–34

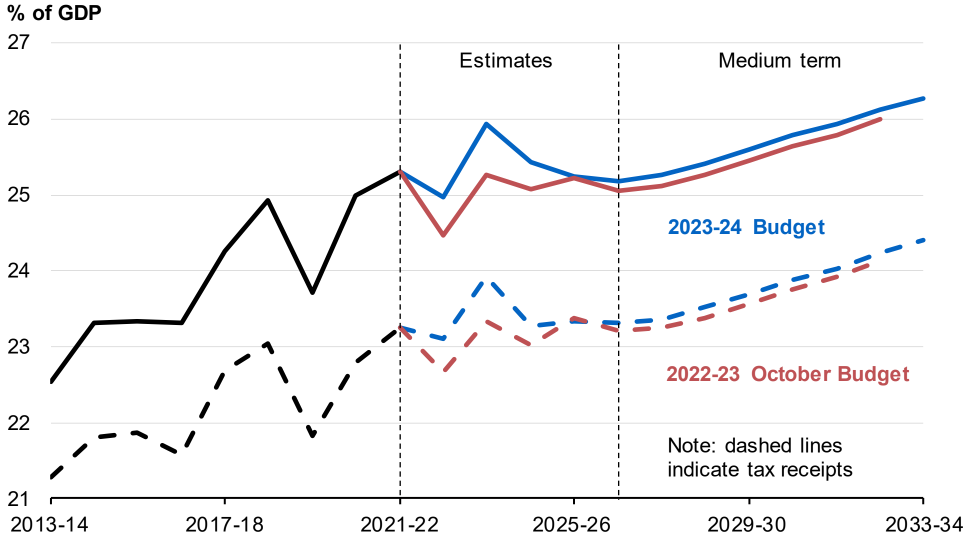


Source: Treasury.
Note: Interest refers to interest payments on Australian Government Securities. NDIS refers to the Commonwealth's contribution to payments for NDIS participant supports. Growth rate at the October Budget from 2022–23 to 2032–33.

Receipts estimates and projections

Total receipts are expected to decrease from 25.9 per cent of GDP in 2023–24 to 25.2 per cent of GDP in 2026–27. This largely reflects tax receipts, which are expected to decrease from 23.9 per cent of GDP to 23.3 per cent of GDP over this period (Chart 3.9).

Chart 3.9: Total receipts



Source: Treasury.

Receipts policy decisions over the forward estimates

Policy decisions in this Budget have increased total receipts by $1.8 billion in 2023–24 and by $22.1 billion over 5 years from 2022–23 to 2026–27. Policy decisions have increased tax receipts by $19.1 billion over 5 years from 2022–23 to 2026–27.

Key tax receipt measures include:

- Extending the Personal Income Tax Compliance Program, extending the GST compliance program, extending and merging the Serious Financial Crime Taskforce and Serious Organised Crime program and improving engagement with taxpayers to ensure timely payment of tax. These measures are estimated to increase receipts by $9.1 billion over the 5 years from 2022–23, partially offset by an associated increase in payments of $4.4 billion, including GST payments to the states and territories of $3.4 billion.

- Tobacco Excise – measures to improve health outcomes, increasing tobacco excise each year for 3 years from 1 September 2023 and aligning the treatment of stick and non-stick tobacco tax. This measure is estimated to increase receipts by $3.3 billion over the 5 years from 2022–23, partially offset by an associated increase in GST payments to the states and territories of $290 million.

- Amending the Petroleum Resource Rent Tax (PRRT) in response to Treasury's Review of the PRRT Gas Transfer Pricing arrangements. This measure is estimated to increase receipts by $2.4 billion over the 5 years from 2022–23, partially offset by an associated increase in payments of $4.4 million.

- Reduce the superannuation tax concessions available to individuals with a total superannuation balance exceeding $3 million. This measure is estimated to increase receipts by $950 million over the 5 years from 2022–23, partially offset by an associated increase in payments of $47.6 million.

Since the October Budget, policy decisions are expected to increase non-tax receipts by $0.5 billion in 2023–24, and by $2.9 billion over 5 years from 2022–23 to 2026–27. This movement includes the expected earnings of the National Reconstruction Fund Corporation, as announced in the 2023–24 Budget measure *National Reconstruction Fund Corporation – establishment*, receipts associated with the 2023–24 Budget measure *Enduring Funding Mechanism for AusCheck,* and receipts associated with the 2023–24 Budget measure *Strengthened and Sustainably Funded Biosecurity System*.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2023–24*.

Receipts parameter and other variations over the forward estimates

Parameter and other variations have increased total receipts since the October Budget by $28.2 billion in 2022–23, $44.9 billion in 2023–24 and by $130.6 billion over 5 years from 2022–23 to 2026–27.

The increase in total receipts due to parameter and other variations primarily reflects tax receipts, which have been revised up by $40.7 billion in 2023–24 and by $115.7 billion over 5 years from 2022–23 to 2026–27. In the near term, tax receipts are supported by a strong labour market and higher commodity prices. Personal income tax is being supported by strong employment growth and an improved outlook for wage growth. Company tax is being supported by commodity prices which have remained higher for longer than projected in the October budget and a longer assumed time for commodity prices to return to long-term levels (see Box 2.4 in *Statement 2: Economic Outlook*). Around one-fifth of the increase in tax receipts reflects the update to assumptions about the path of commodity prices in response to sustained high prices, largely in 2023–24. The upgrades to company tax receipts are expected to moderate by the end of the forward estimates period, as commodity prices are assumed to return to long-term levels.

Since the October Budget, parameter and other variations are expected to increase non-tax receipts by $4.2 billion in 2023–24, and by $17.8 billion over the 5 years from 2022–23 to 2026–27. This movement is driven by higher earnings from interest on cash deposits due to the rise in short-term interest rates, higher earnings from the Future Fund and the Australian Government Investment Funds, as well as higher demand for Australian passports.

Further information on expected receipts is provided in *Statement 5: Revenue.* Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 8: Forecasting Performance and Sensitivity Analysis*.

Payments estimates and projections

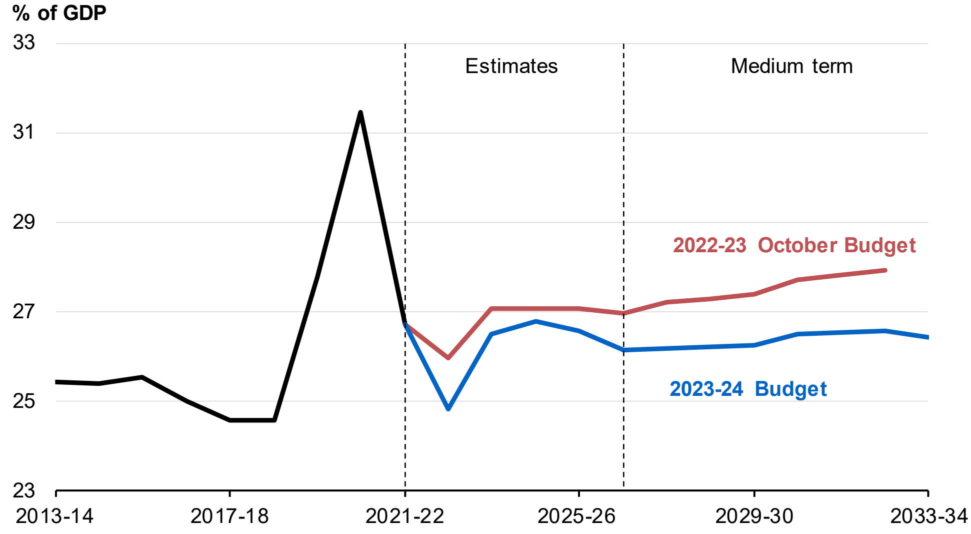
Since the October Budget, total payments have increased by $16.6 billion in 2023–24 and by $26.7 billion over 5 years from 2022–23 to 2026–27. Real payments growth is limited to an average 0.6 per cent per year.

Payments, excluding policy decisions, have been revised down by $13.9 billion in 2022–23, due to lower-than-expected demand for some programs, including COVID-related expenses, and delays in payments arising from capacity constraints.

Payments as a share of GDP is lower in every year of the forward estimates and medium term, compared to the October Budget.

By 2033–34, payments are projected to be 26.4 per cent of GDP (Chart 3.10).

Chart 3.10: Total payments



Source: Treasury.

Payment policy decisions over the forward estimates

New policy decisions since the October Budget have increased total payments by $13.8 billion in 2023–24 and by $42.6 billion over 5 years from 2022–23 to 2026–27.

Major policy decisions since the October Budget that have increased payments include:

- funding to strengthen Medicare to provide better access and more affordable care for patients, in response to the *Strengthening Medicare Taskforce Report*, which is expected to increase payments by $5.7 billion over 5 years from 2022–23
- funding to increase support for people receiving working age payments including the JobSeeker Payment by $4.9 billion over 5 years from 2022–23
- funding to increase the maximum rates of the *Commonwealth Rent Assistance* payment by 15 per cent to address rental affordability challenges for recipients, which is expected to increase payments by $2.7 billion over 5 years from 2022–23
- improving support for single parents through the extension of the eligibility for *Parenting Payment (Single)* to support principal carers with a youngest child under 14 years of age, which is expected to increase payments by $1.9 billion over 5 years from 2022–23
- funding to deliver a targeted energy bill relief and progressing gas market reforms to reduce the impact of rising energy prices on Australian households and businesses, which is expected to increase payments by $1.5 billion over 4 years from 2022–23
- funding towards strengthening Australia's biosecurity system, which is expected to increase payments by $1.0 billion over 4 years from 2023–24.

The Government is also continuing the task of budget repair. Policies to reprioritise funding to enhance the quality of spending include:

- temporarily reducing the residential aged care provision ratio from 78.0 places to 60.1 places per 1,000 people aged over 70 years reflecting the increasing preference of older Australians to remain in their homes, which is expected to decrease payments by $2.2 billion over 3 years from 2024–25 and redirecting funding to the Government's commitments on health and aged care
- reinvesting health and aged care funding to deliver in new or expanded health and aged care services, which is expected to decrease payments by $1.7 billion over 4 years from 2023–24.

Payment parameter and other variations over the forward estimates

Parameter and other variations since the October Budget have increased payments by $2.8 billion in 2023–24 and decreased payments by $15.9 billion over 5 years from 2022–23 to 2026–27.

This is primarily driven by lower estimates for interest payments on government debt resulting from smaller deficits, and lower estimates for payments related to the Medical Benefits program and lower expected recipient numbers for Family Assistance and Support for Seniors. Offsetting this improvement, in part, are an increase in a range of aged care payments and GST payments to the states.

Major increases in payments from parameter and other variations since the October Budget include:

- payments related to Aged Care Services are expected to increase by $1.9 billion in 2023–24 and $13.4 billion over 4 years from 2023–24 to 2026–27, largely due to increased funding for wages as a result of the Fair Work Commission Aged Care Work Value Case, the setting of the Australian National Aged Care Classification price for residential aged care for 2023–24, and updated economic parameters, partially offset by a reduction in the utilisation of Home Care Package funds. The budget impact of this increase is partially offset by funding provisioned in the contingency reserve for the Aged Care Work Value Case outcome in the 2022–23 October Budget.

- payments related to the provision of GST to the states and territories (including Horizontal Fiscal Equalisation (HFE) transition payments), which are expected to increase by $197 million in 2023–24 and $10.8 billion over 4 years from 2023–24 to 2026–27, largely reflecting the GST top-up payments arrangement agreed with states and territories, partially offset by an overall increase in GST receipts.

- payments related to the Military Rehabilitation Compensation Acts, which are expected to increase by $1.1 billion in 2023–24 and $4.8 billion over 4 years from 2023–24 to 2026–27, largely due to increased staff levels resulting in more claims processed and higher payments to veterans

- payments indexed to the Government's Wage Cost Indexation (WCI) framework, which are expected to increase by $242 million in 2023–24 and around $4 billion over the 4 years from 2023–24 to 2026–27, reflecting a revision to the indexation methodology to ensure it better aligns with economic conditions. The movements in individual payments are reflected in the estimates for these programs.

- payments related to National Partnership Payments – Natural Disaster Relief, which are expected to increase by $1.8 billion in 2023–24 and $3.0 billion over 4 years from 2023–24 to 2026–27, due to higher-than-expected spending related to historical disaster events.

- payments related to the NDIS are expected to increase by $1.8 billion in 2023–24 and $1.7 billion over 4 years from 2023–24 to 2026–27. The increase over the forward estimates is lower than would have otherwise been expected due to the Government's investment of $732.9 million to improve the NDIA's capability, capacity and systems which will moderate growth in participant support costs from 2023–24.

- payments related to Research and Development Tax Incentives, which are expected to increase by $176 million in 2023–24 and $942 million over 4 years from 2023–24 to 2026–27, due to increases in the number and value of expected claims following the reopening of international markets post COVID-19.

- payments relating to Building Skills and Capability, which are expected to increase by $189 million in 2023–24 and $440 million over 4 years from 2023–24 to 2026–27, largely due to higher-than-expected demand for the Boosting Apprenticeship Commencements and Completing Apprenticeship Commencements wage subsidies.

Box 3.3: A pay rise for aged care workers

On 21 February 2023, the Fair Work Commission issued a decision on Stage 2 of the Aged Care Work Value Case to provide an interim increase of 15 per cent to modern award minimum wages for many aged care workers, including registered nurses, enrolled nurses, assistants in nursing, personal care workers, home care workers, recreational activity officers, and some head chefs and cooks.

This Budget allocates $11.3 billion over 4 years from 2023–24 to fund this outcome of the case from 1 July 2023, including:

- $8.5 billion for residential aged care
- $2.2 billion for the Home Care Packages Program
- $310.0 million for the Commonwealth Home Support Programme (see *Budget Paper No. 2, Funding Pay Increases for Aged Care Workers*)
- $177.9 million over 4 years from 2023–24 for the Transition Care Programme and Short-Term Restorative Care Programme
- $82.5 million for the Veterans' Home Care Program and Community Nursing services
- $58.9 million over 4 years from 2023–24 for a targeted indexation boost to funding for the following programs (see *Budget Paper No. 2, Funding Pay Increases for Aged Care Workers*):
  - $36.7 million over 4 years from 2023–24 for the National Aboriginal and Torres Strait Islander Flexible Aged Care Program
  - $9.9 million over 4 years from 2023–24 for the Indigenous Employment Initiative
  - $9.1 million over 4 years from 2023–24 for the Trusted Indigenous Facilitators program
  - $3.1 million over 4 years from 2023–24 for the Multi-Purpose Services Program
- $98.7 million to fund historical leave provisions (see Budget Paper No. 2, *Funding Pay Increases for Aged Care Workers*).

More than 250,000 aged care workers will benefit from the increase.

This Budget also includes $2.7 billion over 4 years from 2023–24 in additional indexation for residential aged care based on advice from the Independent Health and Aged Care Pricing Authority.

Major decreases in payments from parameter and other variations since the October Budget include:

- payments related to the Medical Benefits program are expected to be $3.5 billion lower in 2022–23 compared to estimates outlined in the 2022–23 October Budget. A significant factor is lower spending on COVID pathology and vaccine administration over the past financial year along with a reduction in demand for services. This has led to an adjustment across the forward estimates. Before taking into account new measures in the 2023–24 Budget, payments related to the Medical Benefits program are expected to be $2.8 billion lower in 2023–24 and $10.4 billion lower over the 4 years to 2026–27 compared to previous estimates. In the 2023–24 Budget, the Government is investing $5.9 billion over 4 years from 2023–24 in the Medical Benefits program through measures aimed at strengthening Medicare, including $1.5 billion over 4 years from 2023–24 to increase indexation in the Medicare Benefits Schedule.

- payments related to Commonwealth Debt Management, which are expected to decrease by $1.7 billion in 2023–24 and $9.9 billion over the 4 years from 2022–23 to 2025–26, largely reflecting lower levels of Australian Government Securities (AGS) on issue.

- payments related to Family Assistance, which are expected to decrease by $1.0 billion in 2023–24 and $2.8 billion over 4 years from 2023–24 to 2026–27, largely due to a decrease in Family Tax Benefit recipients and a decrease in average payment rates, reflecting continued strong labour market performance.

- payments relating to Support for Seniors, which are expected to decrease by $699 million in 2023–24 and $1.6 billion over 4 years from 2023–24 to 2026–27, largely due to lower than expected Age Pension recipient numbers in 2022–23 which impacts the forward estimates, due to some Australians approaching retirement age choosing to delay their retirement.

- payments relating to Government Schools, which are expected to decrease by $181 million in 2023–24 and $1.2 billion over 4 years from 2023–24 to 2026–27, primarily due to a decrease in student enrolments at Government Schools.

Consistent with past budgets, the underlying cash balance has been improved by regular draw down of the conservative bias allowance. Details in *Statement 6: Expenses and Net Capital Investment*.

Table 3.3: Reconciliation of general government sector payments estimates[(a)]

	Estimates					
	2022–23	2023–24	2024–25	2025–26	2026–27	Total
	$m	$m	$m	$m	$m	$m
2022 PEFO payments(b)	**626,470**	**641,714**	**662,277**	**686,836**	**718,320**	**3,335,617**
Changes from 2022 PEFO to 2022–23 October Budget						
Effect of policy decisions(c)	2,506	1,711	5,980	12,673	*	*
Effect of parameter and other variations	15,105	22,064	25,929	29,075	*	*
Total variations(d)	**17,611**	**23,775**	**31,909**	**41,748**	**43,503**	**158,546**
2022–23 October Budget payments(d)	**644,080**	**665,489**	**694,187**	**728,584**	**761,823**	**3,494,164**
Changes from 2022–23 October Budget to 2023–24 Budget						
Effect of policy decisions(c)	1,212	13,779	10,825	8,960	7,867	42,643
Effect of parameter and other variations	-13,901	2,792	1,284	5	-6,122	-15,941
Total economic parameter variations	-387	640	3,060	5,881	*	*
Unemployment benefits	*-65*	*-591*	*323*	*861*	*	*
Prices and wages	*7*	*494*	*1,544*	*2,901*	*	*
Interest and exchange rates	*447*	*1,060*	*1,016*	*1,019*	*	*
GST payments to the States	*-776*	*-323*	*177*	*1,100*	*	*
Interest payments on AGS	-340	-1,694	-3,224	-4,661	*	*
Program specific parameter variations	-5,196	401	-778	-1,099	*	*
Other variations(e)	-7,977	3,444	2,226	-116	*	*
Total variations	**-12,689**	**16,571**	**12,109**	**8,965**	**1,745**	**26,702**
2023–24 Budget payments	**631,392**	**682,060**	**706,296**	**737,549**	**763,569**	**3,520,865**

*Data is not available.

a) A positive number for payments worsens the underlying cash balance.

b) 2026–27 as published in the medium-term projections, pages 10 and 11 of the 2022 PEFO.

c) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

d) 2026–27 as published in the medium-term projections, pages 90 and 91 of Budget Paper No. 1: Budget Strategy and Outlook October 2022–23.

e) Includes 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.

Headline cash balance estimates

The headline cash balance adjusts the underlying cash balance to include net cash flows from investments in financial assets for policy purposes. For example, Clean Energy Finance Corporation loans and equity investments in the NBN reduce the headline cash balance but not the underlying cash balance. Table 3.4 provides further details of differences between the underlying and headline cash balance estimates.

A headline cash deficit of $19.7 billion is estimated in 2023–24, compared to an estimated deficit of $50.7 billion in the October Budget. The headline cash balance weakens to an estimated deficit of $41.3 billion (1.4 per cent of GDP) in 2026–27. The lower headline cash balance compared to the October Budget is primarily driven by the improvement in the underlying cash balance.

Estimates for total net cash flows from investments in financial assets for policy purposes increased by $0.3 billion over 4 years from 2022–23 to 2025–26 compared to the October Budget. This is primarily driven by increased estimates for HELP loan repayments, partly offset by increased loans and investments for Clean Energy Finance Corporation (primarily reflecting Rewiring the Nation), the National Reconstruction Fund, and the National Housing Finance and Investment Corporation.

Table 3.4: Reconciliation of general government sector underlying and headline cash balance estimates

		Estimates				
	2022–23	2023–24	2024–25	2025–26	2026–27	Total
	$m	$m	$m	$m	$m	$m
2023–24 Budget underlying cash balance	**4,202**	**-13,918**	**-35,058**	**-36,627**	**-28,450**	**-109,852**
***plus* Net cash flows from investments in financial assets for policy purposes(a)**						
Student loans	-2,495	-3,468	-4,372	-4,576	-4,697	-19,608
NBN loan(b)	875	5,500	0	0	0	6,375
NBN investment	-328	-748	-1,016	-308	0	-2,400
Trade support loans	-137	-149	-157	-147	-136	-726
CEFC loans and investments	-344	-975	-2,564	-4,713	-4,702	-13,298
Northern Australia Infrastructure Facility	-743	-1,016	-1,074	-961	-841	-4,635
NRFC loans and investments	0	-354	-448	-849	-1,935	-3,586
Australian Business Securitisation Fund	-434	-355	-251	-151	-202	-1,393
Structured Finance Support Fund	295	260	69	71	0	695
Drought and rural assistance loans	-244	-203	-178	-117	268	-474
Official Development Assistance - Multilateral Replenishment	-128	-135	-142	-195	-170	-770
National Housing Finance and Investment Corporation	-60	-198	-652	-521	540	-891
COVID-19 Support for Indonesia — loan	100	100	100	100	100	500
Financial Assistance to Papua New Guinea — loan	-678	111	111	111	111	-234
Net other(c)	-7,368	-4,163	-3,546	-2,959	-1,140	-19,176
Total net cash flows from investments in financial assets for policy purposes	**-11,689**	**-5,795**	**-14,120**	**-15,215**	**-12,804**	**-59,623**
2023–24 Budget headline cash balance	**-7,487**	**-19,713**	**-49,178**	**-51,842**	**-41,255**	**-169,475**

a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
b) This financial profile represents the actual repayments for 2022–23. 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 have not been itemised for commercial-in-confidence reasons.

The Government's balance sheet

The balance sheet measures the value of the Government's assets and liabilities. Changes in the balance sheet reflect movements in the underlying cash balance, additional balance sheet commitments, and market valuation effects including from changes in yields (Box 3.5).

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** is the sum of all financial assets less all financial liabilities. The assets of the Future Fund and the public sector superannuation liability that the Future Fund will 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 definitions is available in *Statement 10: Australian Government Budget Financial Statements*.

Gross debt estimates and projections

The Government's responsible budget management is supporting lower debt than at the October Budget in each year of the forward estimates and medium term.

Gross debt is estimated to be 35.8 per cent of GDP ($923.0 billion) in 2023-24, $81 billion lower than the estimate of 40.8 per cent of GDP ($1 trillion) at the October Budget. This primarily reflects improvements in the underlying cash balance. The gross debt to GDP position also benefits from lower yields compared to October and from upgrades to nominal GDP.

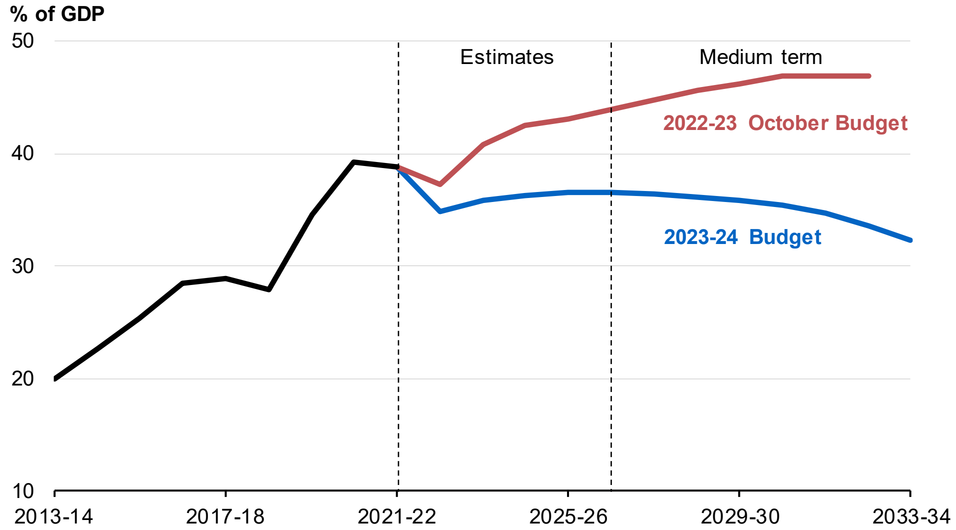
In line with the Economic and Fiscal Strategy, the Government is on track to stabilise and reduce gross debt as a share of the economy. Gross debt is now projected to peak at 36.5 per cent of GDP at in 2025–26, 10.4 percentage points lower and 5 years earlier than at the October Budget, before declining to 32.3 per cent by 2033–34 (Chart 3.11).

The cost of servicing Government debt has decreased since the October Budget, driven by the reduction in debt and, to a lesser extent, lower yields. Over the forward estimates, bond yields are assumed to remain fixed at a recent average of daily spot rates at the time of the Budget update. Since October, the assumed weighted average cost of borrowing for future issuance of Treasury Bonds has decreased from 3.8 to 3.4 per cent. This remains significantly above the 2.2 per cent at PEFO. Lower yields since October have been driven by some moderation in expectations for inflation and future cash rates.

Interest payments are estimated to be 0.8 per cent of GDP in 2023–24 before rising to 1.3 per cent of GDP by 2032–33. This is 0.1 and 0.6 percentage points lower than the October Budget, respectively. This reflects lower deficits and lower yields on government debt.

As part of its debt issuance task, the Australian Office of Financial Management will be issuing green bonds from 2024 (Box 3.4).

Chart 3.11: Gross debt



Source: Australian Office of Financial Management, Treasury.

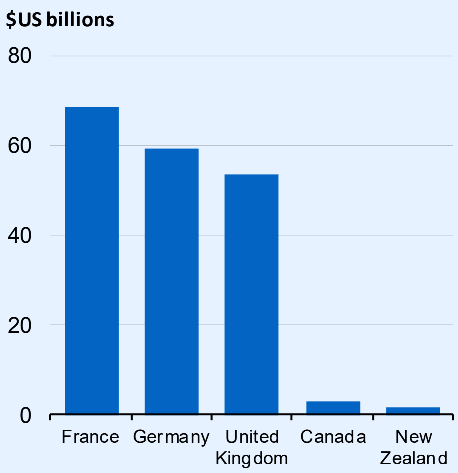
Statement 8: *Forecast Performance and Sensitivity Analysis* contains information on the impact on interest payments and gross debt if the future trajectory for yields is higher or lower than assumed. *Statement 7: Debt Statement* contains further information on yield assumptions and interest payments.

Box 3.4: Green bonds

The Australian Government will commence issuing green bonds from mid-2024. Australian Government green bonds will be fixed income bonds that provide financing for specific government programs with positive climate change and environmental outcomes. Green bonds provide investors the opportunity to support public projects that contribute to climate change and environmental objectives. The issuance of sovereign green bonds will support Australia's broader green capital market to mature and scale. Green bonds will not impact the total stock of Government debt as they displace issuance of normal bonds.

The international market for sovereign green bonds is substantial and growing. Over 40 countries now issue green bonds, including Canada, New Zealand and the United Kingdom. Sovereign green bonds remain a relatively small proportion of issuers' debt portfolios (Chart 3.12 and 3.13).

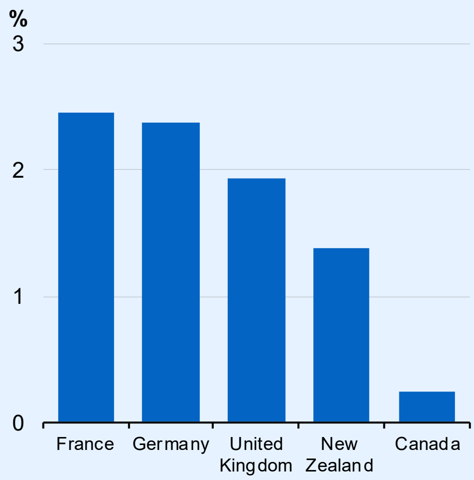
Chart 3.12: Sovereign green bonds



Source: Bloomberg

Note: Sovereign green bonds issuance, exchange rates as at 28 April 2023

Chart 3.13: Green bonds as a percentage of debt on issue



Source: Bloomberg.

Note: Debt on issue refers to the total outstanding nominal debt on issue by the central government

Green bonds form part of the Government's Sustainable Finance Strategy, which will set out measures to develop transparent and credible green finance markets. It complements the greater transparency around climate-related spending provided later in this statement, which is consistent with the International Capital Market Association's (ICMA) Green Bond Principles. Together, these activities will increase transparency around climate outcomes, which will encourage more green capital in Australia.

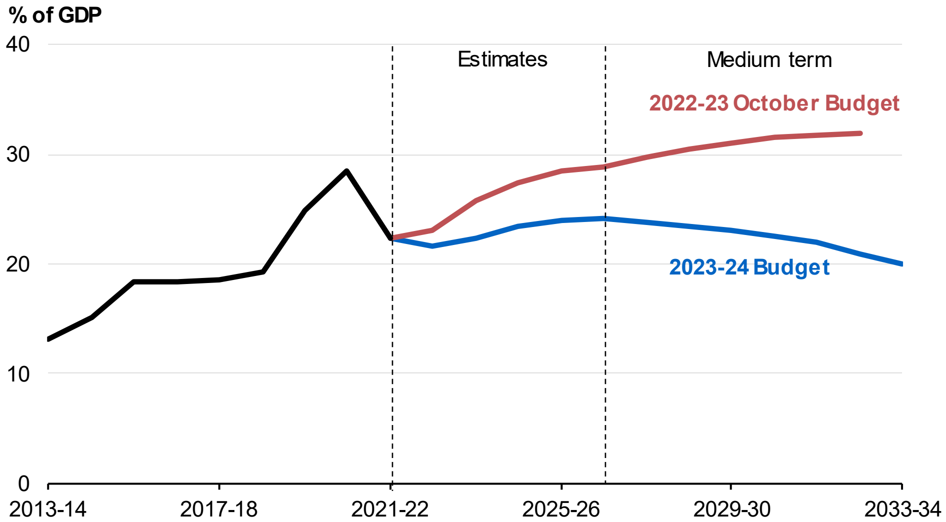
Net debt estimates and projections

Net debt is estimated to be 22.3 per cent of GDP ($574.9 billion) in 2023–24 (Table 3.6); lower than the estimate of 25.8 per cent of GDP ($634.1 billion) at the October Budget. The improvement since the October Budget primarily reflects the Government's decreased borrowing requirement resulting from improvements in the underlying cash balance, partly offset by an increase in the market value of existing debt.

- Yields have fallen since October, making the fixed income stream from existing bonds relatively more attractive to investors. This increases the market value of existing bonds and hence net debt.

Net debt remains lower than estimated at the October Budget across each year of the forward estimates and the medium term. Net debt is projected to be 19.9 per cent of GDP in 2033–34 (Chart 3.14).

Chart 3.14: Net debt



Source: Treasury.

Further information on gross debt and net debt estimates across the forward estimates is provided in *Statement 7: Debt Statement*.

Box 3.5: Leveraging the Government's balance sheet for growth

The Government is investing to build a stronger economy through government financed investment vehicles and government investment funds.

- Government financed investment vehicles partner with the private sector. Their purpose is to unlock private investment for projects that deliver public value and a financial return to taxpayers. For the private sector, government co-investment can reduce the risk of early-stage investments and provide certain, often concessional, long-term capital.
- Government investment funds invest to generate commercial returns as a revenue stream to fund policy objectives.

The Government has established new investment vehicles to support growth in key parts of the economy. For example:

- The National Reconstruction Fund is a $15 billion fund that will partner with the private sector to provide loans, equity and guarantees to projects in 7 priority areas of the economy: renewables and low emissions technologies; medical science; transport; value-add in the agriculture, forestry and fisheries sectors; value-add in resources; defence capability; and enabling capabilities.
- Rewiring the Nation will provide $20.0 billion in concessional debt and equity financing to invest in transmission projects. It will invest in priority grid-related projects through the Clean Energy Financial Corporation (CEFC) to fast-track the decarbonisation of the electricity sector and take advantage of our abundant renewable energy resources needed to power the next stage of the energy transition. Investments in the electricity grid are critical to bringing low-cost renewable energy to consumers as part of the net zero transition.

The Government is also establishing a new Investment Fund – the Housing Australia Future Fund (HAFF) to boost the supply of, and better facilitate private investment into, social and affordable housing.

- The HAFF will provide sustainable funding to increase the supply of social and affordable housing and help address pressures in the housing market. The Government will use returns from the HAFF to deliver 30,000 social and affordable homes over 5 years and provide funding of $330 million for acute housing needs. The HAFF funding will also mobilise institutional investment for social and affordable housing, helping to boost total investment into the sector.

continued on next page

Box 3.5: Leveraging the Government's balance sheet for growth (continued)

By attracting capital to national priority areas, such as clean energy, and social and affordable housing, these investments will build productivity, improve supply chain resilience, and increase economic growth.

The Government is cognisant of the need to manage market risks associated with funds and investment vehicles. The Government is committed to effective, efficient, and transparent management of its assets and will establish a new centralised oversight function for investment vehicles within the Department of Finance.

This will enhance transparency and accountability around the use of the Government's balance sheet.

The Government borrows to finance new investments. Acquisition of financial assets for policy purposes adds assets to the balance sheet, offsetting debt issuance in net financial worth, but increasing gross debt.

Returns from government investments are expected to cover or exceed borrowing costs over the long term, improving the budget bottom line (Chart 3.15). Target returns vary across different entities in line with their differing policy objectives.

The Future Fund can make long-term investments and is not being drawn down in the immediate future. It has achieved an average annual return of 7.7 per cent per annum since inception in 2006. This is above its average target return of 7.0 per cent, and well above the government's average borrowing costs over the period. The Future Fund Board of Guardians also manages the investments for all other Government Investment Funds. Other funds, such as the Medical Research Future Fund (MRRF), have more frequent drawdown requirements and invest in assets with higher liquidity and lower risk, but also with lower returns.

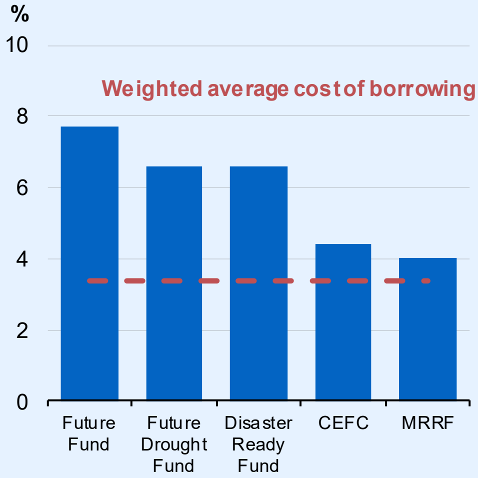
Government financed investment vehicles have financial and policy objectives. Investment vehicles that have been more recently established, or that are investing in more early-stage projects, may not see strong returns in the short term.

continued on next page

Box 3.5: Leveraging the Government's balance sheet for growth (continued)

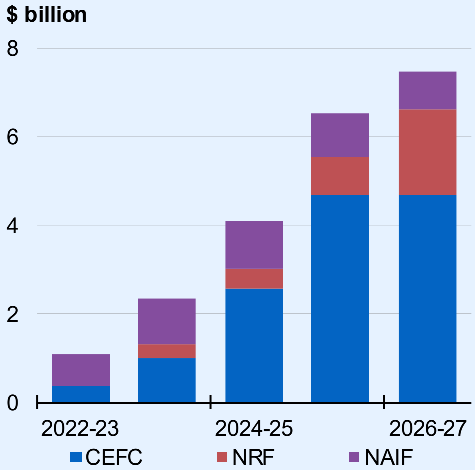
Government financed investment vehicles invest over many years, avoiding pressure on current inflation. Most investments will occur after 2024–25, when inflationary pressures are expected to ease (Chart 3.16).

Chart 3.15: Investment returns versus government borrowing cost



Source: Future Fund, Treasury, CEFC.
Note: Investment returns are cumulative annual returns since inception.

Chart 3.16: Net cash flows from investments for policy purposes



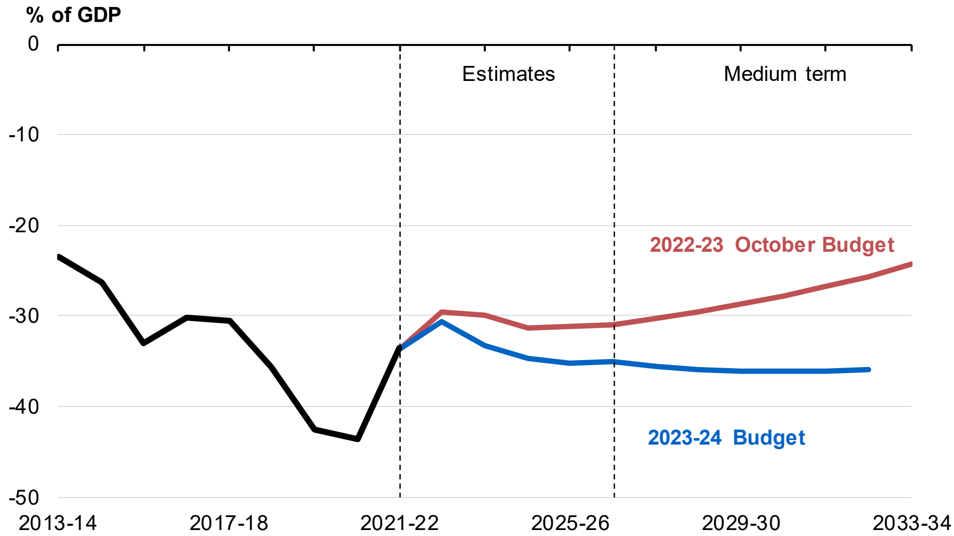
Source: Treasury.
Note: NAIF is the Northern Australia Infrastructure Fund.

Net financial worth and net worth estimates and projections

Net financial worth is estimated to be -30.0 per cent of GDP (-$772.6 billion) in 2023–24 (Table 3.6), compared with the estimate of –33.2 per cent of GDP (-$817.0 billion) at the October Budget.

Net financial worth is projected to deteriorate to –31.3 per cent of GDP in 2024–25 before improving over the medium term (Chart 3.17).

Chart 3.17 Net financial worth



Source: Treasury.

Net worth is estimated to be –21.7 per cent of GDP (–$559.1 billion) in 2023–24 (Table 3.5), compared with the estimate of –24.4 per cent of GDP (–$600.6 billion) at the October Budget. Net worth is projected to deteriorate to –23.0 per cent of GDP by in 2025–26 before improving over the medium term.

The improvement in net worth and net financial worth over the forward estimates largely reflects the Government's decreased borrowing requirement resulting from improvements in the underlying cash balance, partly offset by an increase in the market value of existing debt.

Table 3.5: Australian Government general government sector balance sheet aggregates

	Actual	Estimates				
	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
	$b	$b	$b	$b	$b	$b
Financial assets	**569.7**	**559.9**	**590.7**	**595.5**	**621.5**	**651.1**
Per cent of GDP	24.7	22.0	22.9	22.6	22.4	22.3
Non-financial assets	**194.0**	**203.9**	**213.5**	**222.2**	**226.9**	**235.5**
Per cent of GDP	8.4	8.0	8.3	8.4	8.2	8.1
Total assets	**763.6**	**763.8**	**804.2**	**817.7**	**848.4**	**886.7**
Per cent of GDP	33.1	30.0	31.2	31.0	30.6	30.4
Total liabilities	**1,345.4**	**1,310.6**	**1,363.3**	**1,420.5**	**1,487.2**	**1,554.0**
Per cent of GDP	58.3	51.5	52.9	53.8	53.6	53.2
Net worth	**-581.8**	**-546.9**	**-559.1**	**-602.8**	**-638.8**	**-667.3**
Per cent of GDP	-25.2	-21.5	-21.7	-22.8	-23.0	-22.8
Net financial worth(a)	**-775.7**	**-750.7**	**-772.6**	**-825.0**	**-865.7**	**-902.8**
Per cent of GDP	-33.6	-29.5	-30.0	-31.3	-31.2	-30.9
Gross debt(b)	**895.3**	**887.0**	**923.0**	**958.0**	**1,015.0**	**1,067.0**
Per cent of GDP	38.8	34.9	35.8	36.3	36.5	36.5
Net debt(c)	**515.6**	**548.6**	**574.9**	**620.6**	**665.2**	**702.9**
Per cent of GDP	22.3	21.6	22.3	23.5	24.0	24.1
Total interest payments	**17.4**	**18.8**	**21.1**	**22.4**	**28.2**	**27.1**
Per cent of GDP	0.8	0.7	0.8	0.8	1.0	0.9
Net interest payments(d)	**15.0**	**12.7**	**13.4**	**15.2**	**21.3**	**20.0**
Per cent of GDP	0.6	0.5	0.5	0.6	0.8	0.7

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 7: Debt Statement).

Fiscal impacts of climate change

Climate change presents significant risks and opportunities for Australia's economy, regions, industries, and communities. Achieving Australia's emissions reduction commitments and realising the opportunities that accompany the transition will require significant investment by governments and the private sector. Uncertainty around the magnitude and timing of the physical impacts of climate change and the global transition to net zero emissions translates to uncertainty about the fiscal impacts of climate change.

The economic and climatic changes brought about by climate change will have fiscal impacts. For example, the new industries and jobs emerging from the net zero transformation will impact the structure of the economy and, in turn, the tax base. Extreme weather events are also expected to occur with increased severity and frequency, which will increase demand for disaster relief payments and infrastructure repairs, as discussed in Box 3.6. Statement 3 of the 2022-23 October Budget outlined the drivers and nature of these fiscal impacts in detail, as well as the climate-related spending being undertaken by the Australian Government to respond to climate change.

The 2023–24 Budget continues this practice by transparently reporting $4.6 billion in new climate-related expenditure. This is further to the historic $24.9 billion in new climate-related spending announced in the October 2022–23 Budget and is additional to ongoing climate-related expenditure initiated prior to these budgets. The Government's approach to reporting climate-related spending is informed by the climate-reporting practices of international peers and is presented within the context of international best practice, as well as contributing to work underway to strengthen transparency in future budgets.

Box 3.6: Physical Impacts of Climate Change

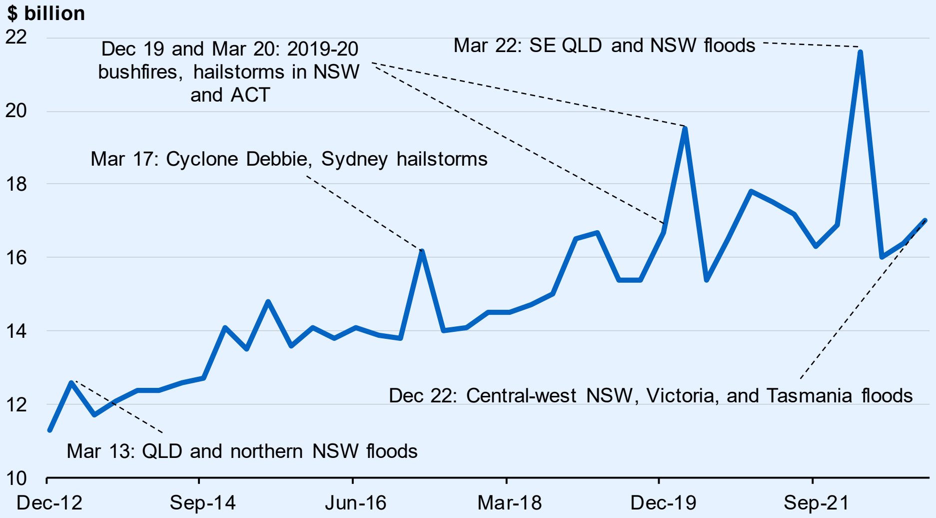
Global warming continues to change Australia's weather and climate, and over the course of this century these trends will all drive changes in Australia's economy – with respect to both its size and structure. This includes impacts on human health, biodiversity, the location and movement of populations, the types of structures we live in, and the ability of individuals to work.

For instance, labour productivity and hours worked are expected to decline as temperatures increase, particularly for employees who work outdoors such as in agriculture, construction and manufacturing. Agricultural yields are expected to decline with climate change. The increased frequency and severity of natural disasters will also lead to reductions in output through disruptions to economic activity and destruction of property and infrastructure.

Insurance claims from the flood events of February–March 2022 were the highest in history due to a natural disaster, causing $5.9 billion in insured damages as of April 2023 according to the Insurance Council of Australia. The ABS shows high non-life insurance claims due to natural disaster events (Chart 3.18).

Since July 2022, the Government has provided $1.5 billion to individuals through the Australian Government Disaster Recovery Payment and Disaster Recovery Allowance. From 2023–24, the Government is providing up to $200 million a year over the next 5 years through the Disaster Ready Fund to support communities to strengthen their resilience against natural disasters.

Chart 3.18: Non-life insurance claims over time



Source: ABS Australian National Accounts: National Income, Expenditure and Product, December 2022.

Climate spending

The Government is committed to improving the transparency of public money committed to climate action. It recognises the importance of identifying, disclosing, and tracking climate spending in improving Australia's response to climate change and aligning with international efforts.

Accounting for climate related spending comprehensively is challenging as it cuts across many portfolios, ranging from energy to health. Existing budget systems also do not readily facilitate reporting climate-related spending on established programs. The Government is currently improving budget processes to facilitate more comprehensive reporting of climate-related spending, including existing measures.

This Budget continues the approach published in the October 2022–23 Budget, and updates on the further work underway to support improvements in future budgets. In particular, it analyses international best practices for defining what spending is climate spending, and clarifies how Australia's approach will be consistent with the framework used to support the Governments' issuance of Green Bonds. This approach will evolve over time as the Government works with and learns from reporting entities and partners around the world.

The climate-related spending approach in this Statement also complements the Government's reporting of its expenditure on related endeavours, such as the over $40 billion commitment on transforming Australia into a renewable energy superpower, as presented in *Budget Statement 1* Box 1.1.

International frameworks and approaches

International organisations and countries have been working to develop green budgeting – an approach to fiscal management that aims to improve the alignment between policymaking and climate and environmental objectives (Box 3.7). Australia's approach to reporting climate-related spending aims to align with and progress that work, and demonstrates Australia's commitment to international climate leadership.

The OECD, IMF and European Commission have jointly proposed the Green Budgeting Framework. Consistent and comprehensive reporting of green expenditure is a core building block of the framework, as it underpins accountability and strategic decision making. The Framework proposes classifying budget measures according to their green (climate and environmental) impacts, and assessing their connection to meeting relevant policy goals, such as countries' Nationally Determined Contributions (NDCs) to emissions reduction.

Box 3.7: International approaches to green classification

Several countries and organisations have developed approaches, each with different scopes and levels of detail.

New Zealand has established a Climate Emergency Response Fund (CERF), which allocates spending towards initiatives that support its climate objectives. Their Budget reports CERF expenditure, disaggregated by sector over a four-year outlook period. The approach separates pre committed spending and new spending and operating and capital expenditure.

Canada reports climate and environment spending in its budget for the current and four-year forward estimates. It provides aggregate climate spending under its 2030 Emissions Reduction Plan and divides its climate and environment spending into four categories across climate mitigation, energy, nature and building capability.

The European Commission has developed the European Union (EU) taxonomy for sustainable activities. EU member states and private entities use the framework to identify whether an economic activity is sustainable and meets the 'do no significant harm' principles.

International progress on green budgeting is also occurring alongside work in sustainable finance, classifying green spending in the private sector. The International Capital Market Association (ICMA) has developed the Green Bond Principles framework. It aims to support bond issuers and investors by setting out the required transparency, accuracy and integrity of information disclosed at a high level.

Australia's classification approach

Australia's initial approach builds on international best practice and will evolve over time as Australia and other countries' contributions to green classifications mature. Australia has started with a focus on climate spending; similar to the approach taken by New Zealand. Broader environmental or sustainability spending is not within scope at this stage.

The framework used in this Budget has four core categories, which clarify the types of expenditure which qualify for inclusion (Box 3.8). In assessing whether spending qualifies as climate-related, Australia adopts the relevant climate-related elements of the International Capital Market Association's (ICMA) Green Bond Principles framework. The reporting of climate-related spending in the budget process will be complementary with the framework accompanying the future release of Australian green bonds.

Box 3.8: Defining and categorising climate spending

Climate action is used as the broadest term to describe anything the Government does to address climate change. Climate action is currently divided into four sub-categories for spending that is contributing towards:

- Reducing emissions in Australia's energy system and broader economy.
- Adapting to climate impacts and building climate and disaster resilience, spending to support Australia manage the physical impacts of climate change.
- International climate engagement, spending to support how we engage through international fora and with other jurisdictions.
- Governance and institutions, investing in the capabilities of Government to ensure it effectively delivers on its objectives and enable a national approach on climate change.

These categories provide a simple to understand framework for why each measure has been classified as contributing to climate action. These categories are expected to evolve over time as Australia's approach to climate spending transparency matures. Policies may contribute to multiple climate or non-climate objectives; spending is classified into the most appropriate category based on its primary purpose. Some policies may contribute indirectly to climate objectives; these have not been included in the current approach.

Indirect benefit example

Health system funding supports responses to the health effects of climate change, such as more extreme heat days. It also supports services for existing health conditions. There are different ways the spending could be classified, the whole amount, none, or a proportion could be classified as climate-related expenditure.

In this Budget, spending with only an indirect contribution to climate action is excluded. If there is a specific program in health related to climate impacts, that would be counted (for example the October 2022–23 Budget measure: National Health and Climate Strategy).

Table 3.6: Australia's climate reporting framework

Australian Climate Action Category	Australian Definition
Reducing emissions in Australia's energy system and broader economy.	*Spending that supports emissions reduction and climate driven economic transition within Australia.* **Aligned elements in ICMA framework:** **Renewable energy** – Including production, transmission, and manufacturing renewable products. **Energy efficiency** – Including buildings, energy storage, smart grids, and products. **Pollution prevention and control** – Including emissions control, and waste to energy. **Clean transportation** – Including electric, hybrid, public, rail, non-motorised, multi modal transportation, and infrastructure for clean vehicles.
Adapting to climate change and improving climate and disaster resilience	*Spending that supports better management of the physical impacts of climate change including adaptation, improving climate resilience, and reducing our vulnerability.*[1] **Aligned elements in ICMA framework:** **Creating Climate Resilience –** Including adapting to and building resilience against the physical impacts of climate change, such as improving infrastructure to handle increased severe weather. **Sustainable management of living natural resources** – Including sustainable agriculture, fishery, aquaculture, forestry, and climate smart farm inputs such as biological crop protection or drip-irrigation. **Sustainable Water Management** – Including sustainable infrastructure, sustainable urban drainage systems and other forms of flooding mitigation. **Climate Change** Information – Including information support systems, such as climate observation and early warning systems.
International climate leadership	*Spending that fits into the above transformation and adaption categories but is primarily targeted overseas. Including international partnerships and involvement in forums and initiatives*[2].
Building Australian Government climate capability	*Spending that enables the Government to better act on climate change, supporting the categories above.*

1 Note: disaster response funding is not included where it does not reduce the underlying risk e.g. demand driven disaster response payments.
2 Note: this must be sufficiently identifiable. General Official Development Assistance (e.g. for disaster response) is currently not in scope.

New climate spending measures

Table 3.7 sets out $4.6 billion in climate-related spending commitments in this Budget to climate action out to 30 June 2030. This is further to the $24.9 billion of climate-related spending committed in the October 2022–23 Budget. Classification of spending is informed by the climate reporting framework defined in Table 3.6 above. The total commitment outlines spending, balance sheet and tax expenditure measures and therefore presents a broader view than the impact on the underlying cash balance.[3]

Climate spending overlaps with the Government's investment of over $40 billion in Australia's plan to become a renewable energy superpower, outlined in *Budget Statement 1*: Box 1.1. However, these figures relate to a different scope of activities.

Climate related budget commitments include measures that build Australia's economy, such as investments in renewable energy, as well as those that support adaptation, such as flood warning infrastructure. Of the four categories in Australia's climate reporting framework, the emissions reduction category and selected items from the government capability and international categories of Table 3.7 contribute to the estimate of Australia's investment in becoming a renewable energy superpower. Spending on adaption is not included.

In addition to these components, the Government's investment in becoming a renewable energy superpower also includes broader investments in the net zero economic transformation, such as investments in critical minerals.

Reporting new climate spending measures supports transparency around the fiscal impacts of climate change. However, it does not provide a complete summary of climate action.

Non-financial measures such as reforms to the Safeguard Mechanism are not captured. Measures that may contribute to climate action but have a different primary purpose (or indirect benefit) are not included.

Australia's approach to reporting climate action commitments is a separate and independent framework to the established functional expense tables in *Budget Statement 6: Expenses*, which aligns with international standards. These cannot be combined for analysis of government spending.

This summary focuses specifically on new climate-related commitments in this Budget. The Government is developing an approach to presenting transparent spending information on existing spending commitments. This will provide a more holistic view of the total amount of Government spending, not just what is new in each budget.

3 Tax expenditures, while included in climate-related spending in this Budget, were not included in the October 2022–23 Budget table on climate spending.

Table 3.7: Key climate-related spending measures – 2022–23 to 2029–30

	($m)
Total[a]	**4,552.2**
Reducing emissions in Australia's energy system and broader economy	**3,968.4**
Hydrogen Headstart[b]	2,007.6
Household Energy Upgrades Fund - establishment[c]	1,343.1
Small Business Support – Small Business Energy Incentive[d]	314.2
National Net Zero Authority	83.2
Supporting a Stronger and More Sustainable Agriculture Sector	61.7
Guarantee of Origin[e]	58.0
Working with the Australian Resources Industry on the Pathway to Net Zero[f]	26.3
Ensuring the Supply of Reliable, Secure and Affordable Energy[g]	18.1
Independent Review of Australian Carbon Credit Units – initial response	18.1
Reducing Transport Emissions[h]	15.7
Growing Australia's Critical Technologies Industries - Powering Australia Industry Growth Centre	14.8
ACT Sustainable Household Scheme	7.5
Powering the Regions Fund - final design[i]	0.0
Capacity Investment Scheme	nfp
Extending the clean building managed investment trust withholding tax concession[j]	*
Adapting to climate change and improving climate resilience	**544.2**
Natural Heritage Trust – project funding – Climate-Smart Agriculture[k]	302.1
Flood Warning Infrastructure Network Remediation[l]	194.1
National Climate Adaptation and Risk Program	28.0
Partnering to Implement the National Soil Action Plan	20.0
Re-establishing our international climate leadership	**17.9**
Comprehensive Sustainable Finance Agenda	17.9
Building Australian Government climate capability	**21.8**
Capturing Australia's Emissions Reduction Data – additional funding	21.8

a) This table summarises the Government's key climate-related spending commitments in this Budget to 30 June 2030, this presents a broader view than the impact on the underlying cash balance. Some measures extend beyond 30 June 2030 or include both initial and ongoing funding to 30 June 2030. This means the spending commitment presented in this table may differ from the measure set out in Budget Paper No. 2, Budget Measures 2023–24. Measures may not add due to rounding.
b) The figure for this measure includes funding beyond 2030, this represents the total funding commitment as the time period is not for publication.
c) This measure contains $1.0 billion in funding for concessional loans.
d) This measure includes $310.0 million cost in receipts and $4.2 million in payments.
e) This measure is partially offset from the Strategic International Partnerships Investment Stream, costs are also expected to be partially recovered through cost recovery arrangements over time.
f) This includes the components – Partner with Queensland to reduce emissions, and review offshore petroleum and greenhouse gas storage activities.
g) This includes the components – Australian Energy Regulator: for new legislated functions that will support Australia's energy transformation and reduce emissions.
h) This total will differ to the Budget Paper No. 2 measure as it nets out the funding re-purposed from the Driving the Nation Fund in the 2022–23 October Budget to avoid double reporting climate spending.
i) This measure allocates funding from the Powering the Regions in detail. This funding was already reported in the October 2022–23 Budget.
j) This measure is estimated to result in an unquantifiable decrease in receipts over 5 years from 2022–23.

k) Funding for this measure is drawn from the Natural Heritage Trust. This is already provisioned into the Budget bottom line and so does not impact the Underlying Cash Balance (UCB) as shown in Budget Paper No. 2, Budget Measures 2023–24. Table 3.7 captures broader government commitments than the impact on the UCB. This measure was not included in October 2022–23.

l) This total will differ to the Budget Paper No. 2 measure as it only includes funding to 30 June 2030; the measure commits funding over 10 years from 2023–24 (and ongoing funding from 2032–33).

Appendix A: Other fiscal aggregates

Accrual aggregates

Accrual accounting records income and costs at the time they are incurred. Cash accounting records income and costs at time of associated actual cash flow. Differences in estimates arise where there is a difference between the timing of an activity and the associated cash flow.

Net operating balance estimates

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

The net operating balance is expected to be a deficit of $3.7 billion (0.1 per cent of GDP) in 2023–24 (Table 3.8), compared to an expected deficit of $33.0 billion in the October Budget.

Fiscal balance

The fiscal balance is the accrual equivalent of the underlying cash balance and equals the net operating balance plus net new capital investment.

The fiscal balance is expected to be a deficit of $14.1 billion (0.5 per cent of GDP) in 2023–24 (Table 3.8), compared to an expected deficit of $44.9 billion in the October Budget.

Table 3.8: Australian Government general government sector accrual aggregates

	Actual	Estimates					
	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Revenue	**596.4**	**653.8**	**680.4**	**677.3**	**713.7**	**748.2**	**3,473.4**
Per cent of GDP	25.8	25.7	26.4	25.7	25.7	25.6	
Expenses	**623.0**	**644.8**	**684.1**	**715.4**	**743.3**	**771.8**	**3,559.4**
Per cent of GDP	27.0	25.3	26.6	27.1	26.8	26.4	
Net operating balance	**-26.6**	**9.0**	**-3.7**	**-38.0**	**-29.6**	**-23.5**	**-85.9**
Per cent of GDP	-1.2	0.4	-0.1	-1.4	-1.1	-0.8	
Net capital investment	**8.4**	**10.4**	**10.4**	**7.2**	**5.4**	**9.3**	**42.8**
Per cent of GDP	0.4	0.4	0.4	0.3	0.2	0.3	
Fiscal balance	**-35.1**	**-1.5**	**-14.1**	**-45.3**	**-35.0**	**-32.8**	**-128.7**
Per cent of GDP	-1.5	-0.1	-0.5	-1.7	-1.3	-1.1	

a) Total is equal to the sum of amounts from 2022–23 to 2026–27.

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

Table 3.9: Reconciliation of general government sector fiscal balance estimates

	Estimates					
	2022–23	2023–24	2024–25	2025–26	2026–27	Total
	$m	$m	$m	$m	$m	$m
2022 PEFO fiscal balance	**-78,560**	**-58,735**	**-51,062**	**-39,649**	*	*
Per cent of GDP	-3.4	-2.5	-2.1	-1.5	*	
Changes from 2022 PEFO to 2022–23 October Budget						
Effect of policy decisions(a)	-775	1,128	-5,706	-7,489	*	*
Effect of parameter and other variations	40,649	12,698	-5,370	-2,756	*	*
Total variations	**39,874**	**13,826**	**-11,076**	**-10,245**	*	*
2022–23 October Budget fiscal balance	**-38,686**	**-44,909**	**-62,138**	**-49,895**	*	*
Per cent of GDP	-1.6	-1.8	-2.4	-1.9	*	
Changes from 2022–23 October Budget to 2023–24 Budget						
Effect of policy decisions(a)(b)						
Revenue	*141*	*1,525*	*4,722*	*5,890*	*7,619*	*19,897*
Expenses	*1,749*	*13,013*	*10,145*	*8,460*	*7,584*	*40,951*
Net capital investment	*-10*	*734*	*712*	*493*	*353*	*2,282*
Total policy decisions impact on fiscal balance	-1,598	-12,222	-6,135	-3,063	-318	-23,336
Effect of parameter and other variations(b)						
Revenue	*28,609*	*45,408*	*23,520*	*16,844*	*	*
Expenses	*-7,883*	*4,607*	*2,984*	*3,904*	*	*
Net capital investment	*-2,329*	*-2,187*	*-2,458*	*-4,982*	*	*
Total parameter and other variations impact on fiscal balance	38,821	42,987	22,994	17,922	*	*
2023–24 Budget fiscal balance	**-1,462**	**-14,144**	**-45,278**	**-35,035**	**-32,813**	**-128,733**
Per cent of GDP	-0.1	-0.5	-1.7	-1.3	-1.1	

*Data is not available.

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 improves the fiscal balance, while a positive number for expenses and net capital investment worsens the fiscal balance.

Revenue estimates

Revenue is the accrual accounting equivalent of cash-based receipts. Changes in revenue are generally driven by the same factors as receipts. Revenue amounts can be higher or lower 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 generally reflect timing differences.

Total revenue has been revised up by $46.9 billion in 2023–24, since the October Budget.

Expense estimates

Expenses are the accrual accounting equivalent of cash-based payments.

Total expenses have been revised up by $17.6 billion in 2023–24 and by $37.0 billion over 4 years from 2022–23 to 2025–26 since the October Budget.

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

- the NDIS program, where there is an expected time lag between the receipt of reasonable and necessary support services and the lodgement of claims relating to those services
- 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 6: Expenses and Net Capital Investment.*

Structural budget balance estimates

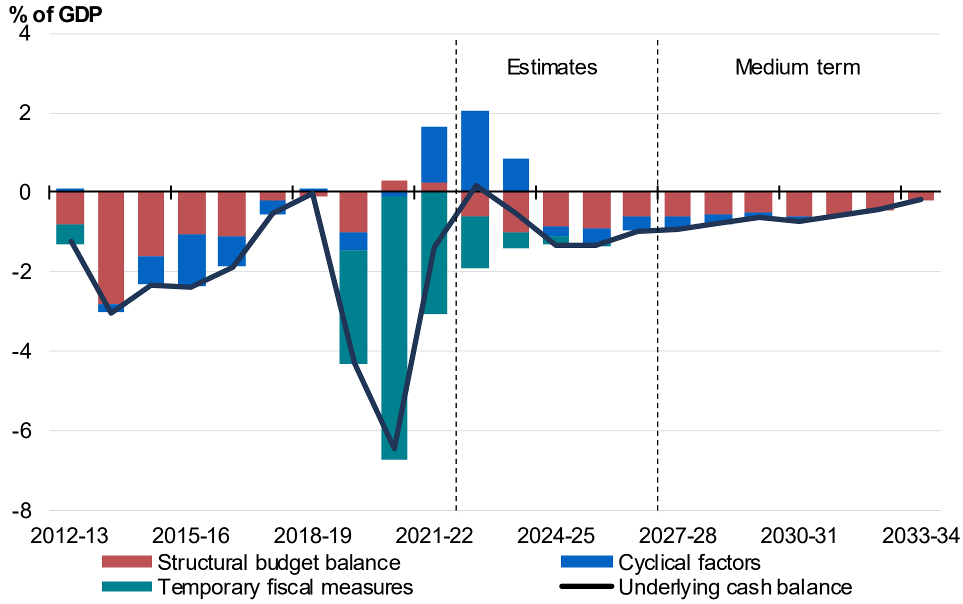
The structural budget balance estimate adjusts the underlying cash balance to remove the estimated effects of temporary factors. Temporary factors include deviations in commodity prices and economic activity from their long-run levels. The structural budget balance can provide insight into the sustainability of fiscal settings.

The structural balance is estimated rather than observed, so it is sensitive to the assumptions and parameters that underpin it. Commodity price volatility has increased the uncertainty around the estimate.

The estimated structural budget balance has improved over the forward estimates compared to the October Budget (Chart 3.19). Over the medium term, the estimated structural deficit is projected to be smaller, but persist. This improvement is consistent with forecast revisions to the underlying cash balance, which reflect lower interest payments than were expected in the October Budget and a larger economy, including as a result of higher population and participation.

Cyclical factors are estimated to positively contribute to the underlying cash balance in the near term, but not to the structural budget balance, in large part due to elevated commodity prices and a strong labour market. This will recede as commodity prices return to their assumed long-run levels and economic activity returns to its potential level. Estimates take account of the change in commodity price assumptions in this Budget (see Box 2.4).

Chart 3.19: Structural budget balance



Note: The approach separating the budgetary impact of temporary measures from structural measures follows the methodology detailed in Treasury Working Paper 2013-01. Cyclical factors measure the estimated impact on the underlying cash balance from automatic stabilisers and cyclical movements in asset and commodity prices. Temporary fiscal measures comprise direct economic and health support measures initiated between the onset of the COVID-19 pandemic and the 2022–23 October Budget. Underspends in these direct economic and health support measures are not captured in the derivation of the structural budget balance, which may result in an improved structural budget balance estimate.

Source: Treasury.