PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK 2016

Statement by the Treasurer and the Minister for Finance

Consistent with the *Charter of Budget Honesty Act 1998*, we declare that we have disclosed to the Secretary to the Treasury and the Secretary of the Department of Finance all details of any Government decision, or any other circumstance, that we know about:

i. that has, or could have, material fiscal or economic implications; and

ii. that neither of the responsible Secretaries could reasonably be expected to know about.

SIGNED

The Hon. Scott Morrison MP
Treasurer
18 May 2016

SIGNED

Senator the Hon. Mathias Cormann
Minister for Finance
18 May 2016

Statement by the Secretary to the Treasury and the Secretary of the Department of Finance

Consistent with the *Charter of Budget Honesty Act 1998*, the 2016 PEFO provides updated fiscal and economic estimates and projections, based on the best professional judgment of the Treasury and the Department of Finance, reflecting all known information at the time of the issuance of the election writs.

In our best professional judgment, the economic and fiscal outlook for the Commonwealth has not materially changed since the publication of the 2016-17 Budget on 3 May 2016. While there has been recent movement in several economic indicators (including commodity prices, market interest rates and foreign exchange rates), these indicators can be volatile and our judgment is that these do not reflect a material change. As such, the fiscal projections published in the 2016-17 Budget provide a solid platform for decision making about the budget trajectory, including over the medium term.

The medium-term economic projections are based on the same set of underlying assumptions as the projections in the 2016-17 Budget. These assumptions are informed by past outcomes, economic theory and international practice. As the sensitivity analysis included in Statement 7 of Budget Paper No. 1, *Budget Strategy and Outlook 2016-17* shows, projections are very sensitive to the underlying assumptions.

Importantly, the medium-term projections continue established practice of assuming that, once the economy returns to potential, it remains growing at that rate. That assumption is consistent with international practice but it is benign. Should Australia experience a significant negative economic shock, the fiscal position would be expected to deteriorate rapidly and not be consistent with the projections.

The medium-term projections are also underpinned by an assumption of annual productivity growth equal to the average of recent decades. Continued economic reform would be required in order to achieve this growth. Even if this rate of productivity growth were attained, living standards will rise more slowly than over recent decades.

Australia's relatively rich endowment has led it to run current account deficits for much of its history. Australians benefit from the willingness of foreign savers to finance current account deficits and support higher levels of investment. This alone suggests that it is prudent for Australia to run a relatively conservative fiscal stance. Successive Australian governments have adopted such prudent fiscal strategies.

The PEFO projections also maintain the assumption that tax receipts as a proportion of GDP do not rise above 23.9 per cent over the medium term. This is the average after the introduction of the GST and before the Global Financial Crisis.

The medium-term projections show that, without considerable effort to reduce spending growth, it will not be possible to run underlying cash surpluses, say in the order of one per cent of GDP, without tax receipts rising above 23.9 per cent of GDP. Even if payments were reduced from the levels projected at the 2016-17 Budget to the long-term average of 24.9 per cent of GDP by the end of the medium term, tax receipts would still need to rise to around 24.2 per cent of GDP by 2026-27, well above the average of the past 30 years, to achieve a surplus of one per cent of GDP. Reducing spending growth has proved difficult in practice.

Consistent with normal practice, the estimates in the PEFO assume that unlegislated policy decisions will be legislated and take effect from the next possible commencement date. Where legislation is not passed in time to enable commencement at that date, is passed with amendments to the original decision, or is rejected there is a risk of a variation to the fiscal position outlined in the PEFO. The indicative net impact of all unlegislated policy decisions included in forward estimates in the PEFO is around $18 billion in underlying cash terms and updated for parameter changes, over the five years to 2019-20.

Australia has a relatively strong fiscal position by international standards. However, Commonwealth Government debt levels are projected to reach recent historical highs, both on a gross and net basis. These debt levels are not an immediate concern given historically low interest rates and a growing economy. But should Australia experience a significant negative economic shock or increased interest rates or debt levels rise above current projections over the medium term, the debt burden will impose an increasingly significant cost on the fiscal and economic outlook. It is crucial for Australia to maintain its top credit rating to ensure the Commonwealth's borrowing costs, and those across the economy more generally, are kept as low as possible.

More generally, the medium term outlook also shows the crucial importance of increasing productivity. This will require renewed vigour in encouraging and delivering structural reform across all parts of the economy.

Consistent with the *Charter of Budget Honesty Act 1998*, we declare that, to the fullest extent possible, the information in the *Pre-election Economic and Fiscal Outlook 2016* for which we are responsible:

i. reflects the best professional judgment of the officers of the Treasury and the Department of Finance;

ii. takes into account all economic and fiscal information available; and

iii. incorporates the fiscal implications of Government decisions and circumstances disclosed by the responsible Ministers.

SIGNED

Mr John A. Fraser
Secretary to the Treasury
19 May 2016

SIGNED

Ms Jane Halton, AO PSM
Secretary, Department of Finance
19 May 2016

Overview

The economic and fiscal outlook is broadly unchanged since the 2016-17 Budget. There remain, as outlined in the Budget, significant domestic and global downside risks that will need to be carefully managed.

An underlying cash deficit of $37.1 billion (2.2 per cent of GDP) is expected in 2016-17, improving to a deficit of $5.9 billion (0.3 per cent of GDP) in 2019-20. Table 1 provides estimates and projections of the underlying cash and fiscal balances for the period from 2015-16 to 2019-20.

Table 1: Budget aggregates

	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
Underlying cash balance ($b)(b)	**-40.0**	**-37.1**	**-26.1**	**-15.4**	**-5.9**	**-84.6**
Per cent of GDP	-2.4	-2.2	-1.4	-0.8	-0.3	
Fiscal balance ($b)	**-39.5**	**-37.1**	**-18.7**	**-9.8**	**-2.1**	**-67.7**
Per cent of GDP	-2.4	-2.2	-1.0	-0.5	-0.1	

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

(b) Excludes net Future Fund earnings.

Economic outlook

In real terms, the Australian economy is forecast to grow by 2½ per cent in both 2015-16 and 2016-17 — then to pick up to 3 per cent in 2017-18 as the detraction from falling mining investment eases.

The Australian economy is transitioning from a mining investment boom to broader-based drivers of growth. As mining projects are completed, mining investment is expected to fall steeply, with falls of 27½ per cent in 2015-16 and 25½ per cent in 2016-17, before easing to a fall of 14 per cent in 2017-18. At the same time as falling mining investment is detracting from growth there is a ramp up of mining export volumes, particularly from iron ore and LNG, helping to cushion the impact on GDP growth.

Historically low interest rates and a lower exchange rate since its peak in 2011 are helping to support growth. Consumption is forecast to grow steadily over the forecast period supported by a continuing decline in the savings rate. Investment in housing is expected to grow strongly in 2015-16 and then to remain at a high level, although the rate of growth is forecast to slow. Non-mining business investment is expected to pick up over the forecast period in line with a forecast increase in domestic demand.

The pick-up in non-mining investment has been slower to materialise than previously forecast and any further delays — or a more gradual pick-up — in non-mining investment continues to be a significant risk to forecast real GDP growth. Analysis presented in the 2016-17 Budget shows that if non-mining business investment were to be flat in 2016-17 and 2017-18, the level of real GDP would be ½ per cent lower than the 2016-17 Budget forecasts after two years. Nominal GDP would be ¾ per cent lower by 2017-18, reducing the underlying cash balance by around $1.5 billion in 2016-17 and around $3.9 billion in 2017-18 (see Statement 7 of Budget Paper No.1, *Budget Strategy and Outlook 2016-17*).

Since the 2016-17 Budget, the exchange rate has fallen somewhat and market participants have lowered their expectations of the official cash rate. Should a weaker exchange rate persist or should the official cash rate fall further, this would be expected to provide further support to real GDP growth, other things being equal.

Employment growth is expected to remain solid across the forward estimates, *albeit* slightly slower than the strong pace seen last year, with the unemployment rate forecast to fall to 5½ per cent in the June quarter of 2017 from 5¾ per cent in the June quarter of 2016.

Nominal GDP growth is forecast to be 2½ per cent in 2015-16 before rising to 4¼ per cent in 2016-17 and 5 per cent in 2017-18.

Nominal GDP growth has been weighed down recently by weak inflation and wages growth. Inflation has been soft so far in 2015-16 — in the March quarter of 2016, the trimmed mean (a measure of underlying inflation) recorded its lowest through the year growth since 1999. Inflation is expected to remain at the lower end of the Reserve Bank of Australia's (RBA's) target band over the forecast period. Wage growth has also been subdued, with the most recent result indicating wage growth of 2.1 per cent through the year to the March quarter of 2016, the lowest it has been since the series began in 1997. The risks to inflation and wages remain on the downside and, if inflation and wages remain persistently weak, they would detract from nominal GDP growth with negative consequences for tax receipts, somewhat offset by a reduction in payments. For example, if inflation outcomes were consistent with the lower bound of the range presented in the RBA May 2016 Statement on Monetary Policy in the forecast period from 2015-16 to 2017-18, nominal GDP could be around 1¼ per cent lower by 2017-18.

Nominal GDP is also sensitive to movements in commodity prices and, hence, the terms of trade. The Budget forecasts reflect a technical assumption for commodity prices based on an average of the preceding weeks.

Clearly, commodity prices are volatile and the outcomes could vary from the prices assumed in the 2016-17 Budget. The recent averages for some commodity prices are slightly higher than at Budget. By contrast, the latest spot prices are lower. Given short term volatility in prices, these differences are considered not material and so the technical assumptions have not been changed from Budget. Analysis reported in the 2016-17 Budget suggests that a ten per cent fall in non-rural commodity prices could reduce nominal GDP by 1 per cent by 2017-18 compared with levels forecast in the Budget. This, in turn, would be expected to affect tax receipts and payments worsening the underlying cash balance by around $2.2 billion in 2016-17 and $5.4 billion in 2017-18 (see Statement 7 of Budget Paper No.1, *Budget Strategy and Outlook 2016-17*).

The global economy continues to provide downside risks for domestic growth. While growth in excess of 3 per cent is expected in the global economy and 4 per cent in Australia's major trading partners, over the coming year, risks to the global outlook are high and are present in both advanced and emerging market economies.

Of particular significance for Australia are the implications of the transition of the Chinese economy towards a more balanced, consumer-driven growth model. The potential for this rebalancing to lead to a greater than expected slowdown in the Chinese economy remains a key risk to Australia and the region.

That said, there will also be opportunities for Australia in China's longer term transition. Our past trade has predominantly been focused on demand for our commodities; however, trade with China as it transitions will become more focused on demand for our services. Opportunities are also afforded by the China-Australia Free Trade Agreement.

A number of major economies continue to face financial challenges, particularly the euro area, Japan and a range of emerging market economies. Significant debt has been raised in recent years, particularly in emerging markets, which could also create challenges for both borrowers and lenders in a continued low global growth environment. In this environment, risks of renewed volatility in financial markets persist.

Inflation remains low globally reflecting, in part, the impact of low energy costs. Inflation in major advanced economies is expected to remain below policy targets for at least the near term and monetary policy in major advanced economies is expected to remain accommodative. Market expectations for further US Federal Reserve rate rises had also been scaled back, but the most recent inflation data may ameliorate this somewhat.

There has been recent strength in some key commodities but prices remain well below the peaks seen around 2011. Prices will continue to be weighed on by ample supply and uncertainty regarding demand prospects, especially from China. There is also uncertainty around the effect of oil prices on global growth due to the weaker than expected response of consumers and businesses to lower oil and energy prices in 2015 compared with historical experience.

All that said, the business cycle is unlikely to have been consigned to history. Europe, for example, could surprise on the upside and we are expecting the United States to pick up over the forecast period. But relying on a rebound in world growth in the medium term would be a dangerous strategy.

Table 2 presents the major economic parameters used in preparing the 2016 PEFO. These parameters are unchanged from those presented in the 2016-17 Budget.

Table 2: Major economic parameters[(a)]

	Outcomes	Forecasts			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Real GDP	2.2	2 1/2	2 1/2	3	3	3
Employment	1.5	2	1 3/4	1 3/4	1 1/4	1 1/2
Unemployment rate	6.1	5 3/4	5 1/2	5 1/2	5 1/2	5 1/2
Consumer price index	1.5	1 1/4	2	2 1/4	2 1/2	2 1/2
Wage price index	2.3	2 1/4	2 1/2	2 3/4	3 1/4	3 1/2
Nominal GDP	1.6	2 1/2	4 1/4	5	5	5

(a) Year average growth unless otherwise stated. From 2014-15 to 2017-18, employment and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through the year growth to the June quarter.

Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

Detailed forecasts of the economy are prepared for the forecast period — that is, the current year, the Budget year and the subsequent year. Beyond the forecast period, there is less information on which to prepare detailed forecasts, so Australian budgets and other economic statements rely on projections of economic aggregates such as real GDP, nominal GDP and employment growth to underpin budget estimates of receipts and payments. The 2016 PEFO uses the same projection methodology that has been used in budgets and budget updates since the 2014-15 Budget.

Treasury's medium-term economic projection methodology assumes that any estimated gap between forecast real GDP and potential GDP closes over the first five projection years (2018-19 to 2022-23) as spare capacity in the labour market is absorbed. Beyond that point, real GDP and other economic variables are assumed to grow in line with their estimated long-run trend rates.

The medium-term economic and fiscal projections are sensitive to the assumptions that underpin Treasury's estimate of potential GDP — that is, assumptions about population, productivity and participation. They are also sensitive to the assumed pace of the economy's return to potential — that is, the assumption that the adjustment period lasts five years.

Analysis reported in the 2016-17 Budget shows that a faster (two year) adjustment to potential requires comparatively faster growth in real GDP and employment as the output gap closes and spare labour is put to use. This leads to lower unemployment and faster growth in wages and domestic prices, increasing nominal GDP and improving the projected underlying cash balance over the medium term even as long-run real GDP is unchanged from the Budget projections. A more gradual adjustment period (eight years) is estimated to have broadly opposite effects on the projections.

Analysis in the 2016-17 Budget also shows that lower trend productivity growth than assumed in the Budget projections would directly reduce potential growth — leading to permanently lower real GDP and wages with only a small impact on prices. In this scenario, lower nominal GDP leads to lower projected tax receipts which weakens the projected underlying cash balance over the medium term. By contrast, assuming faster trend productivity growth than assumed in the Budget projections results in higher nominal GDP and tax receipts, strengthening the underlying cash balance.

Fiscal outlook

The underlying cash balance is estimated to be a deficit of $37.1 billion (2.2 per cent of GDP) in 2016-17, improving to a deficit of $5.9 billion (0.3 per cent of GDP) in 2019-20.

Table 3 provides a summary of the major budget aggregates.

Table 3: Australian Government general government sector budget aggregates

	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
	$b	$b	$b	$b	$b	$b
Receipts	**387.9**	**411.3**	**437.4**	**469.9**	**500.7**	**1,819.3**
Per cent of GDP	23.5	23.9	24.2	24.8	25.1	
Payments(b)	**425.0**	**445.0**	**459.9**	**481.5**	**502.6**	**1,889.0**
Per cent of GDP	25.8	25.8	25.5	25.4	25.2	
Net Future Fund earnings	3.0	3.3	3.6	3.8	4.1	14.9
Underlying cash balance(c)	**-40.0**	**-37.1**	**-26.1**	**-15.4**	**-5.9**	**-84.6**
Per cent of GDP	-2.4	-2.2	-1.4	-0.8	-0.3	
Revenue	**396.3**	**416.9**	**449.5**	**484.4**	**515.1**	**1,865.8**
Per cent of GDP	24.0	24.2	24.9	25.5	25.9	
Expenses	**431.5**	**450.6**	**464.8**	**489.3**	**511.6**	**1,916.3**
Per cent of GDP	26.1	26.2	25.7	25.8	25.7	
Net operating balance	-35.1	-33.7	-15.3	-5.0	3.5	-50.5
Net capital investment	4.4	3.4	3.4	4.9	5.5	17.2
Fiscal balance	**-39.5**	**-37.1**	**-18.7**	**-9.8**	**-2.1**	**-67.7**
Per cent of GDP	-2.4	-2.2	-1.0	-0.5	-0.1	
Memorandum item:						
Headline cash balance	-51.6	-53.5	-34.3	-24.0	-14.4	-126.2

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

(c) Excludes net Future Fund earnings.

Underlying cash balance estimates

Table 4 provides a reconciliation of the underlying cash balance estimates from the 2016-17 Budget to the 2016 PEFO.

Table 4: Reconciliation of underlying cash balance estimates

	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
	$m	$m	$m	$m	$m	$m
2016-17 Budget underlying cash balance(b)	**-39,946**	**-37,081**	**-26,123**	**-15,406**	**-5,955**	**-84,565**

Table 4: Reconciliation of underlying cash balance estimates

	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
	$m	$m	$m	$m	$m	$m
Per cent of GDP	-2.4	-2.2	-1.4	-0.8	-0.3	
Changes from 2016-17 Budget to 2016 PEFO						
Effect of policy decisions(c)(d)						
Receipts	*0*	*0*	*0*	*0*	*0*	*0*
Payments	*0*	*2*	*0*	*-3*	*-6*	*-7*
Total policy decisions impact on underlying cash balance	0	-2	0	3	6	7
Effect of parameter and other variations(d)						
Receipts	*-103*	*0*	*0*	*0*	*0*	*0*
Payments	*0*	*0*	*0*	*0*	*0*	*0*
less Net Future Fund earnings	*0*	*0*	*0*	*0*	*0*	*0*
Total parameter and other variations impact on underlying cash balance	-103	0	0	0	0	0
2016 PEFO underlying cash balance(b)	**-40,049**	**-37,083**	**-26,123**	**-15,403**	**-5,949**	**-84,558**
Per cent of GDP	-2.4	-2.2	-1.4	-0.8	-0.3	

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

(b) Excludes expected net Future Fund earnings.

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

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

Consistent with the Charter of Budget Honesty, the PEFO takes into account to the fullest extent possible, all Government decisions and other circumstances that may have a material effect on the fiscal and economic outlook and were made, or were in existence, before the issue of the writs for the general election on Monday 16 May 2016. The PEFO does not include the impact of election commitments that do not constitute decisions of government and that are costed separately during the election campaign.

Since the 2016-17 Budget, parameter and other variations have resulted in a negative impact on the underlying cash balance of $103 million in 2015-16, reflecting a reduction in expected receipts from Unclaimed Superannuation Monies. This change primarily reflects lower than expected unclaimed superannuation amounts for former temporary residents and small lost member accounts reported by superannuation funds after the finalisation of the 2016-17 Budget.

Economic parameters are unchanged from those presented in the 2016-17 Budget. More detail is provided in the Economic Outlook.

Forecasts for tax receipts are unchanged since the 2016-17 Budget, consistent with the unchanged economic projections. As reflected in the 2016-17 Budget, tax collections in 2015-16 have been weaker than expected at the time of the 2015-16 Budget and the 2015-16 MYEFO. There is a risk that tax collections will again be lower than expected in the coming months, with implications for the 2015-16 receipts estimates.

Policy decisions taken since the 2016-17 Budget have worsened the underlying cash balance by around $1.8 million in 2016-17. Over the four years to 2019-20, policy decisions have improved the underlying cash balance by around $7 million.

Details of all policy decisions not previously published in the 2016-17 Budget are provided at Appendix B.

In line with normal practice, the forward estimates in the PEFO do not incorporate funding beyond 2016-17 for some items that are considered on a year by year basis, including defence operations and any potential listings of new drugs recommended by the Pharmaceutical Benefits Advisory Committee. Payments to partly reimburse States and Territories for any future natural disasters under the Natural Disaster Relief and Recovery Arrangements are also not included in the forward estimates until any such disasters occur.

Contingency Reserve

The Contingency Reserve provision in the 2016 PEFO is unchanged since the 2016-17 Budget except for the inclusion of new policy decisions taken since the 2016-17 Budget.

The Contingency Reserve provision reduces expenses by $1.1 billion in 2016-17 and increases expenses by $412 million in 2017-18, $1.9 billion in 2018-19 and $6.2 billion in 2019-20. As noted in the 2016-17 Budget, the largest components of this are:

- the ‘conservative bias allowance’, which makes provision for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years ($2.0 billion in 2017-18, $4.2 billion in 2018-19 and $8.7 billion in 2019-20);
- a provision of $729 million over four years to 2019-20 for a number of items, including continuation of some expiring National Partnerships and possible by-election and redistribution costs for the Australian Electoral Commission;
- a provision to reflect the effects of economic parameter revisions received too late in the 2016-17 Budget process for inclusion in entity estimates;
- an underspend provision in 2015-16 that reflects the tendency for budgeted expenses for some entities or functions not to be met; and
- estimates for measures where the measures have been announced but they cannot yet be included in entity estimates, usually because they are subject to negotiations or there is some uncertainty as to their final cost and/or outcome.

The Contingency Reserve also includes decisions taken but not yet announced (DTBNYA) reported in the 2016-17 Budget. Significant DTBNYA items in the 2016-17 Budget included the *Same Sex Marriage Plebiscite* and *Indigenous Recognition Referendum* decisions.

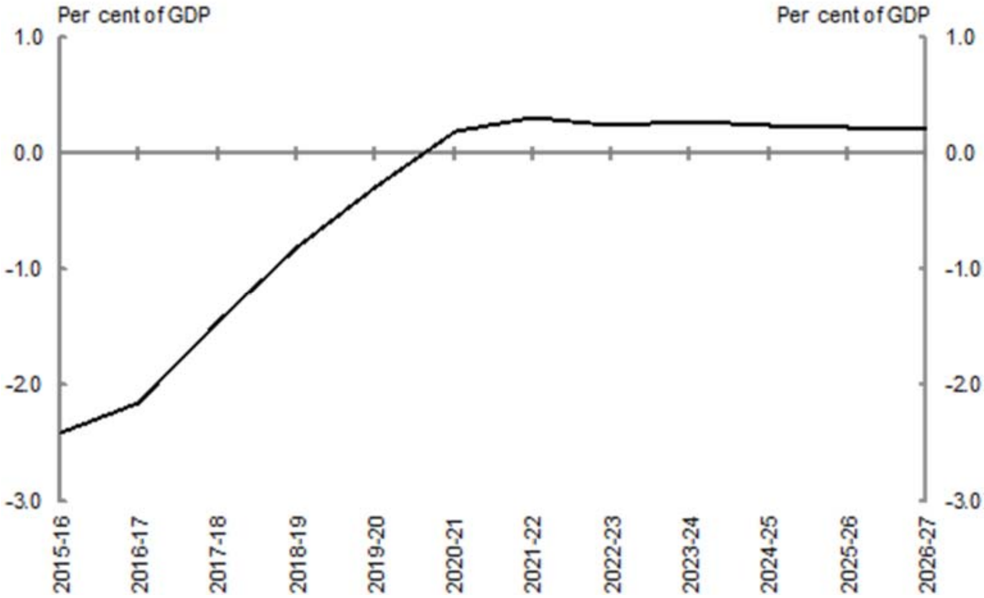
Further information about DTBNYA items included in the 2016-17 Budget and in prior rounds is available at Appendix B. Consistent with past practice, the DTBNYA lines in Budget Paper No. 2, *Budget Measures 2016-17* included the reversal of some DTBNYA items from previous Budget rounds. As such, these items were removed from the Contingency Reserve at the time of the 2016-17 Budget.

The remaining items in the Contingency Reserve cannot be disclosed for commercial-in-confidence or national security reasons.

Medium-term fiscal outlook

The medium-term outlook is unchanged since the 2016-17 Budget and outlines the broad trajectory of the fiscal position under current policy settings. The underlying cash balance is projected to continue to improve over the medium term, reaching a surplus of around 0.2 per cent of GDP in 2020-21, before peaking at around 0.3 per cent of GDP the following year (Chart 1). It is projected to fall slightly over the rest of the medium term, to be around 0.2 per cent of GDP by 2026-27. These are unchanged from the projections at the 2016-17 Budget. From 2021-22, payments are projected to grow broadly in line with receipts.

Chart 1: Underlying cash balance projected to 2026-27



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund commence.

Source: Treasury projections.

Medium-term projections outline the broad trajectory of the fiscal position under current policy settings. Changes to underlying assumptions, for example, around the economy or future government policy can have large impacts on projections of the underlying cash balance.

In particular, the projections assume no policy change and are based on economic projections underpinned by a medium-term methodology and some key assumptions such as productivity growing in line with average rates over recent decades. The modest projected surpluses beyond 2020-21 are subject to considerable uncertainty. Decisions that increase payments or reduce receipts as a proportion of GDP would detract from the medium-term fiscal position. Equally, revisions to economic parameters which affect projected receipts or payments could compromise the return to an underlying cash surplus over the medium-term projection period.

The impact on the projected medium-term underlying cash balance of alternative economic scenarios was presented in Statement 7 of Budget Paper No. 1, *Budget Strategy and Outlook 2016-17*. The impact on the projected underlying cash balance of alternative assumptions relating to taxation receipts and payments growth in the medium term was presented in Box 3 of Statement 3 of Budget Paper No. 1, *Budget Strategy and Outlook 2016-17*.

These scenarios underline the uncertainties in the medium term and the need for action to ensure Australia's fiscal position is as strong as possible so that any challenges can be better managed.

Fiscal balance estimates

The fiscal balance deficit is expected to be $37.1 billion (2.2 per cent of GDP) in 2016-17, improving to a deficit of $2.1 billion (0.1 per cent of GDP) in 2019-20.

Movements in accrual revenue and expenses over the forward estimates are broadly consistent with the movements in cash receipts and payments.

Table 5 provides a reconciliation of the fiscal balance estimates.

Table 5: Reconciliation of fiscal balance estimates

	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
	$m	$m	$m	$m	$m	$m
2016-17 Budget fiscal balance	**-39,429**	**-37,129**	**-18,675**	**-9,839**	**-2,059**	**-67,701**
Per cent of GDP	-2.4	-2.2	-1.0	-0.5	-0.1	
Changes from 2016-17 Budget to						
2016 PEFO						
Effect of policy decisions(b)(c)						
Revenue	0	0	0	0	0	0
Expenses	0	1	-1	-3	-6	-9
Net capital investment	0	1	1	0	0	2
Total policy decisions impact on fiscal balance	0	-2	0	3	6	7
Effect of parameter and other variations(c)						
Revenue	-69	0	0	0	0	0
Expenses	-3	0	0	0	0	0
Net capital investment	0	0	0	0	0	0
Total parameter and other variations impact on fiscal balance	-66	0	0	0	0	0
2016 PEFO fiscal balance	**-39,495**	**-37,130**	**-18,675**	**-9,836**	**-2,053**	**-67,694**
Per cent of GDP	-2.4	-2.2	-1.0	-0.5	-0.1	

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

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

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

Net debt, net financial worth, net worth and net interest payments

Net debt, net financial worth, net worth and net interest payments are essentially the same as published at the 2016-17 Budget. In 2016-17, net debt for the Australian Government general government sector is expected to be $326.1 billion (18.9 per cent of GDP). Net financial worth is estimated to be -$427.2 billion and net worth is estimated to be -$301.0 billion.

Net interest payments are estimated to be $12.6 billion in 2016-17 (0.7 per cent of GDP). Interest payments largely relate to the public debt interest on government securities, based on the interest rates on the existing stock of Commonwealth Government Securities (CGS) and the prevailing market interest rates across the yield curve for future issuance of CGS. This PEFO assumes a weighted average cost of borrowing of around 2.5 per cent for future issuance of Treasury Bonds in the forward estimates period, the same as the assumed market yields used in the 2016-17 Budget. Yields are volatile and could vary from those assumed in the Budget. Recent movements in interest rates, if maintained, would lower the government cost of borrowing, reducing interest payments and expenses over the forward estimates. It would also reduce interest receipts earned on assets.

Table 6 provides a summary of the Australian Government general government sector net worth, net financial worth, net debt and net interest payments.

Table 6: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	$b	$b	$b	$b	$b
Financial assets	342.4	383.3	413.9	432.1	453.3
Non-financial assets	122.9	126.2	130.6	134.9	139.7
Total assets	**465.3**	**509.5**	**544.4**	**567.1**	**593.0**
Total liabilities	**730.4**	**810.5**	**859.1**	**886.5**	**909.1**
Net worth	**-265.1**	**-301.0**	**-314.7**	**-319.5**	**-316.2**
Net financial worth(a)	**-388.0**	**-427.2**	**-445.3**	**-454.4**	**-455.8**
Per cent of GDP	-23.5	-24.8	-24.6	-24.0	-22.9
Net debt(b)	**285.8**	**326.1**	**347.1**	**356.7**	**355.4**
Per cent of GDP	17.3	18.9	19.2	18.8	17.8
Net interest payments	**12.0**	**12.6**	**13.4**	**14.2**	**14.2**
Per cent of GDP	0.7	0.7	0.7	0.8	0.7

(a) Net financial worth equals total financial assets minus total liabilities.

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

Next: Appendix A: Financial Statements
Previous: Economic outlook
Return to: Home

Facsimile: + 61 2 6263 2869
Email Us
ABN: 92 802 414 793