



Australian Government

Department of Finance and Deregulation

Recent Budgeting Developments in Australia

**Background Paper for Delegates at the 8th Annual Meeting of the OECD – Asian Senior Budget Officials Meeting
2-3 February 2012**

The Australian Economic and Fiscal Outlook

The Australian Government (the Government) remains committed to returning the Budget to surplus in 2012-13 ([Table 1](#)).

To ensure a timely return to surplus the Government has reiterated its commitment to:

- allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average;
- fully offsetting all new expenditure proposals with savings and holding annual real growth in spending to 2 per cent, on average, until the budget returns to surplus; and
- once the budget returns to surplus, and while the economy is growing at or above trend, the Government will maintain expenditure restraint by retaining a 2 per cent cap on spending growth, on average, until the surplus is at least 1 per cent of GDP.

This builds upon the Government's core medium-term fiscal strategy which aims to ensure fiscal sustainability by:

- achieving budget surpluses, on average, over the medium term;
- keeping taxation receipts as a share of GDP on average below the level for 2007-08 (23.7 per cent); and
- improving the Government's net financial worth over the medium to longer term.

The Government released the mid-year update of its 2011-12 Budget in November 2011. The update notes a significant deterioration in global economic conditions and risks to global stability from the European sovereign debt crisis.

This has led to a downgrading of global growth prospects and a weaker near-term economic and fiscal outlook for Australia since the 2011-12 Budget presented in May 2011.

The Australian budget has been impacted by the weaker global outlook reflected through a reduction in forecast revenue of around \$5.9 billion for 2011-12 in the mid-year update, compared to the Budget. In total, revenue downgrades expected to be

around \$110 billion is attributable to the Global Financial Crisis between 2008-09 and 2012-13.

Overall, however, the Australian economy remains relatively strong as evidenced by projected GDP growth, low unemployment growth, and the room available for monetary and fiscal policy to respond to future external shocks if necessary. The forecasts in the mid-year Budget update point to:

- above trend real GDP growth of 3¼ per cent in 2011-12 and 2012-13 (albeit lower than the 4 per cent growth envisaged at Budget) ([Table 2](#)); and
- an unemployment rate of 5½ per cent by June 2012, which is still around 5 per cent (the rate that is consistent with a stable inflation rate);

As a result, the 2011-12 mid-year Budget update now estimates a cash deficit of 2.5 per cent of GDP in 2011-12 compared to a deficit of 1.5 per cent of GDP at Budget and a smaller underlying cash surplus of 0.1 per cent of GDP in 2012-13 (compared to a surplus of 0.2 per cent of GDP at Budget) ([Chart 1](#)). This compares favourably with the budget balances of the major advanced economies.

- Net Government debt is now expected peak at 8.9 per cent of GDP in 2011-12 before falling to 7.7 per cent of GDP in 2014-15 ([Chart 2](#)).

However, the mid-year Budget update also points to risks to the economic outlook, a number of which have intensified since Budget 2011-12. The European sovereign debt crisis in particular continues to generate considerable uncertainty and has the potential to affect the Australian economy via direct and indirect financial, business and consumer confidence and trade links.

The Government has responded to the more challenging fiscal outlook by delivering \$11.5 billion in additional savings in the mid-year Budget update. The combined effect of all policy decisions is estimated to improve the budget bottom-line by \$6.8 billion over the forward estimates.

These savings have been achieved through a combination of expenditure cuts, including efficiencies sought within government, deferring some initiatives and implementing measures to improve the integrity and fairness of the taxation system.

Recent Budgetary Developments in Australia

Parliamentary Budget Office

In November last year, legislation was passed to establish a Parliamentary Budget Office (PBO).

The PBO has been established to provide high-quality, independent and non-partisan analysis and advice to parliamentarians on Budget-related matters, such as issues pertaining to the budget cycle, fiscal policy and the financial implications of spending proposals and costing election policy proposals.

The Department of Finance and Deregulation and the Department of the Treasury will continue to advise the Government on policy costings in the usual way and retain their roles in providing ongoing budget advice to the Government. During the ‘caretaker’ period after a federal government election is called, the Department of Finance and Deregulation and the Department of the Treasury will continue to advise both the Caretaker Government and the other parties which could form the government on their election policy costings.

Strategic Efficiency Agenda

Efficiencies in the public sector make an important contribution to the \$11.5 billion of savings announced at the 2011-12 mid-year Budget update.

- This includes an additional one-off efficiency dividend of 2.5 per cent in 2012-13 (on top of the existing annual efficiency dividend of 1.5 per cent), which is expected to yield savings of \$1.5 billion over the forward estimates to 2014-15.

To help deliver these savings, the Department of Finance and Deregulation is leading the development a strategic efficiency agenda, to play a key role in improving efficiency across government in a coordinated and consultative manner. This will include:

- bringing together current efficiency initiatives that have focussed on reducing costs across ICT, property and procurement;
- exploring new initiatives and opportunities to reduce internal cost drivers of government agencies;
- benchmarking performance; and
- looking at opportunities for standardised practices.

Australian Mid-Year Economic and Fiscal Update (Australian Commonwealth Government): Budget Aggregates and Major Economic Parameters

Table 1: Budget aggregates

	Actual	Estimates		Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
Underlying cash balance (\$b)^(a)	-47.7	-37.1	1.5	1.9	3.1
Per cent of GDP	-3.4	-2.5	0.1	0.1	0.2
Fiscal Balance (\$b)	-51.5	-32.4	4.7	4.2	6.4
Per cent of GDP	-3.7	-2.2	0.3	0.3	0.4

(a) Excludes expected Future Fund earnings

Table 2: Major economic parameters^{(a)(b)}

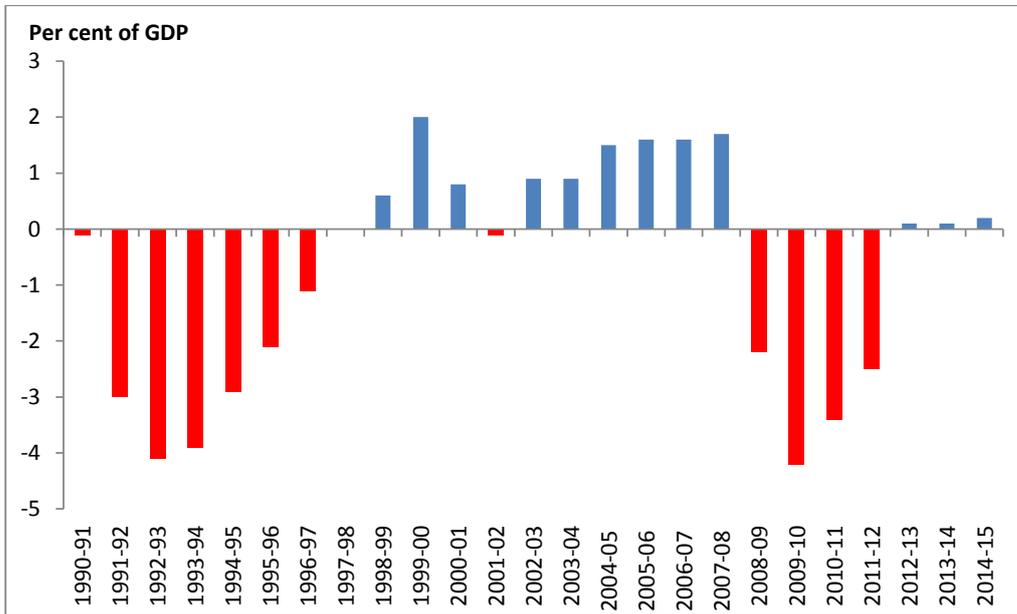
	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
Real GDP	3 1/4	3 1/4	3	3
Employment	1	1 1/2	1 1/2	1 1/2
Unemployment rate	5 1/2	5 1/2	5	5
Consumer price index	2 1/4	3 1/4	2 1/2	2 1/2
Nominal GDP	6 1/4	5	5 1/4	5 1/4

(a) Real and nominal GDP are year-average growth. Employment and CPI are through-the-year growth to the June quarter. The unemployment rate is the rate in the June quarter.

(b) The forecasts incorporate the introduction of a carbon price on 1 July 2012

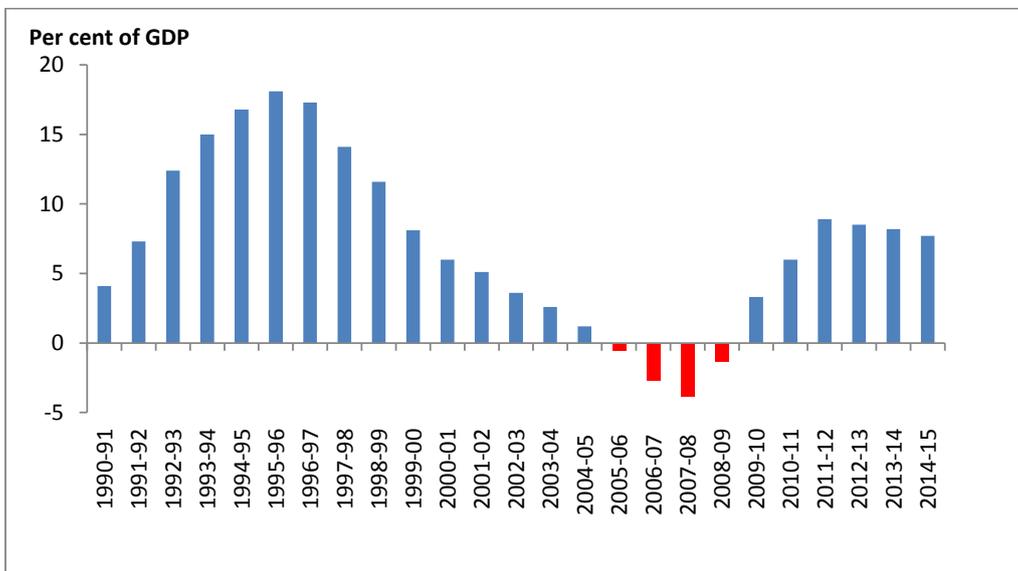
Source: Mid-Year Economic and Fiscal Outlook 2011-12

**Chart 1: Australian Government Budget Balance (underlying cash balance)
(per cent of GDP)**



Source: 2011-12 Mid-Year Economic and Fiscal Outlook

**Chart 2: Australian Government Net Debt
(per cent of GDP)**



Source: 2011-12 Mid-Year Economic and Fiscal Outlook