



Australian Government

The Treasury

Fiscal Consolidation in Australia

Fiscal Consolidation

- Medium Term Fiscal Framework
- Fiscal Consolidation since the GFC
- The long term fiscal position
- Key challenges

mid 1980s

- *If this Government cannot get ... a sensible economic policy, then Australia is basically done for. We will end up being a third rate economy ... a banana republic.*

Treasurer Paul Keating, May 14, 1986

- In the 1980s fiscal consolidation was based on the 'trilogy' commitments, which consisted of:
 - Not raising the tax to GDP ratio
 - Not raising the Government expenditure to GDP ratio
 - Reducing the budget deficit to GDP ratio.

mid 1990s

- The *Charter of Budget Honesty Act 1998* provides a framework for the conduct of transparent Government fiscal policy with the ultimate goal of improving fiscal policy outcomes
- The Government must set out its fiscal strategy to establish a benchmark for evaluating the Government's conduct of fiscal policy
- Specify fiscal actions to deal with temporary cyclical fluctuations in the economy and indicate the process for reversal

Medium-term fiscal strategy

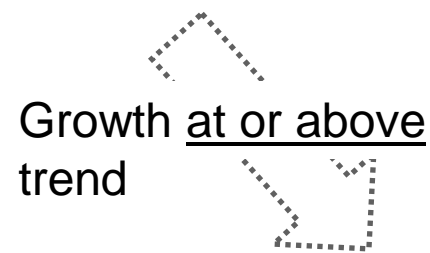
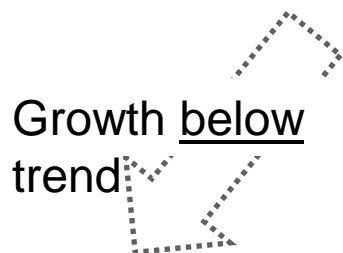
“The Government’s medium-term fiscal strategy is designed to ensure fiscal sustainability while allowing the flexibility to respond to fluctuations in the economic outlook. The Government’s medium-term fiscal strategy is to:

- achieve budget surpluses, on average, over the medium term;*
- keep taxation as a share of GDP below the level for 2007-08 (23.7 per cent of GDP), on average; and*
- improve the Government’s net financial worth over the medium term.”*

GFC deficit exit strategy

Growth-contingent fiscal strategy

3 February 2009



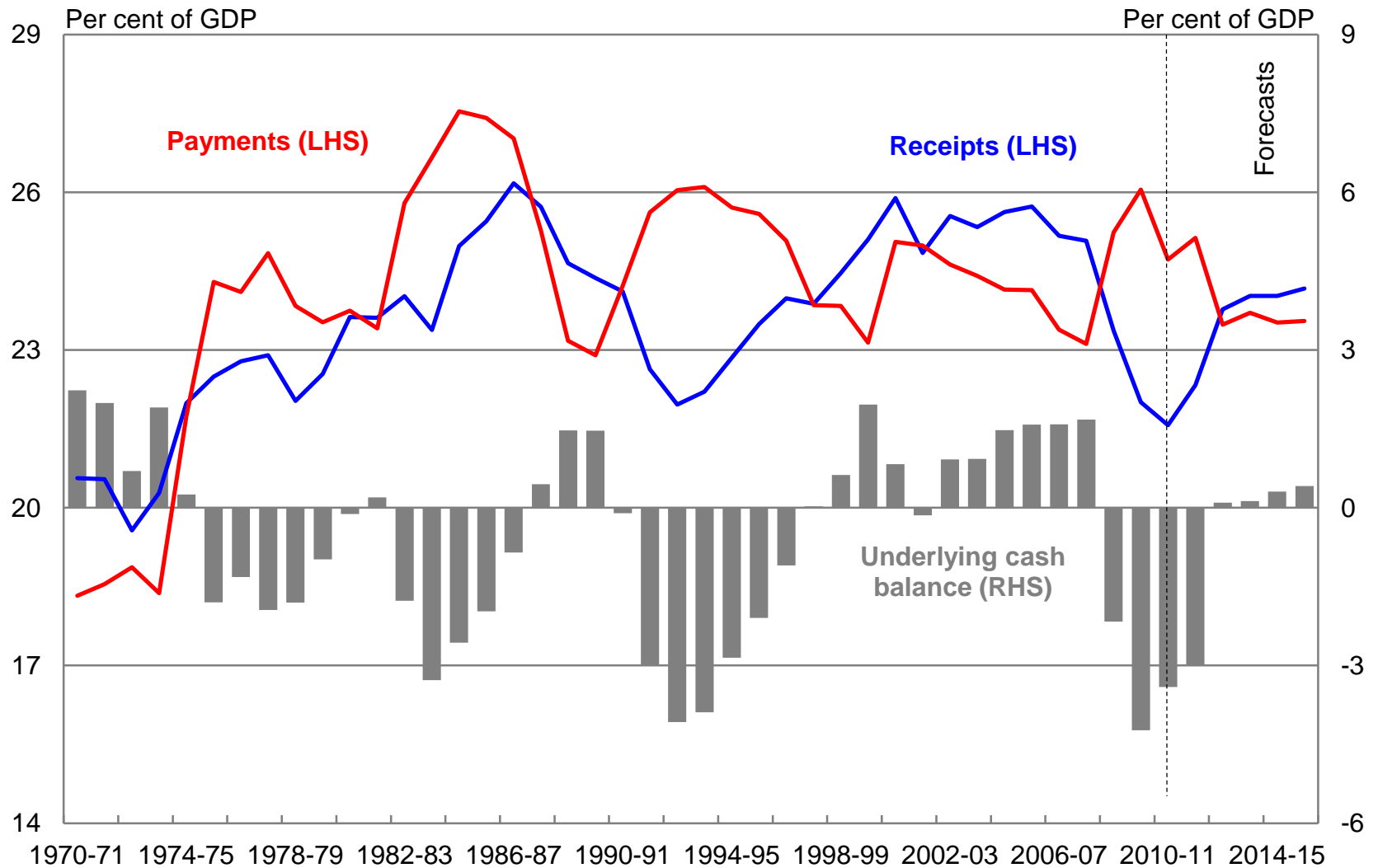
Allow automatic stabilisers to drive a temporary budget deficit; and

Use additional spending to deliver timely, targeted and temporary stimulus, with all other proposals fully offset

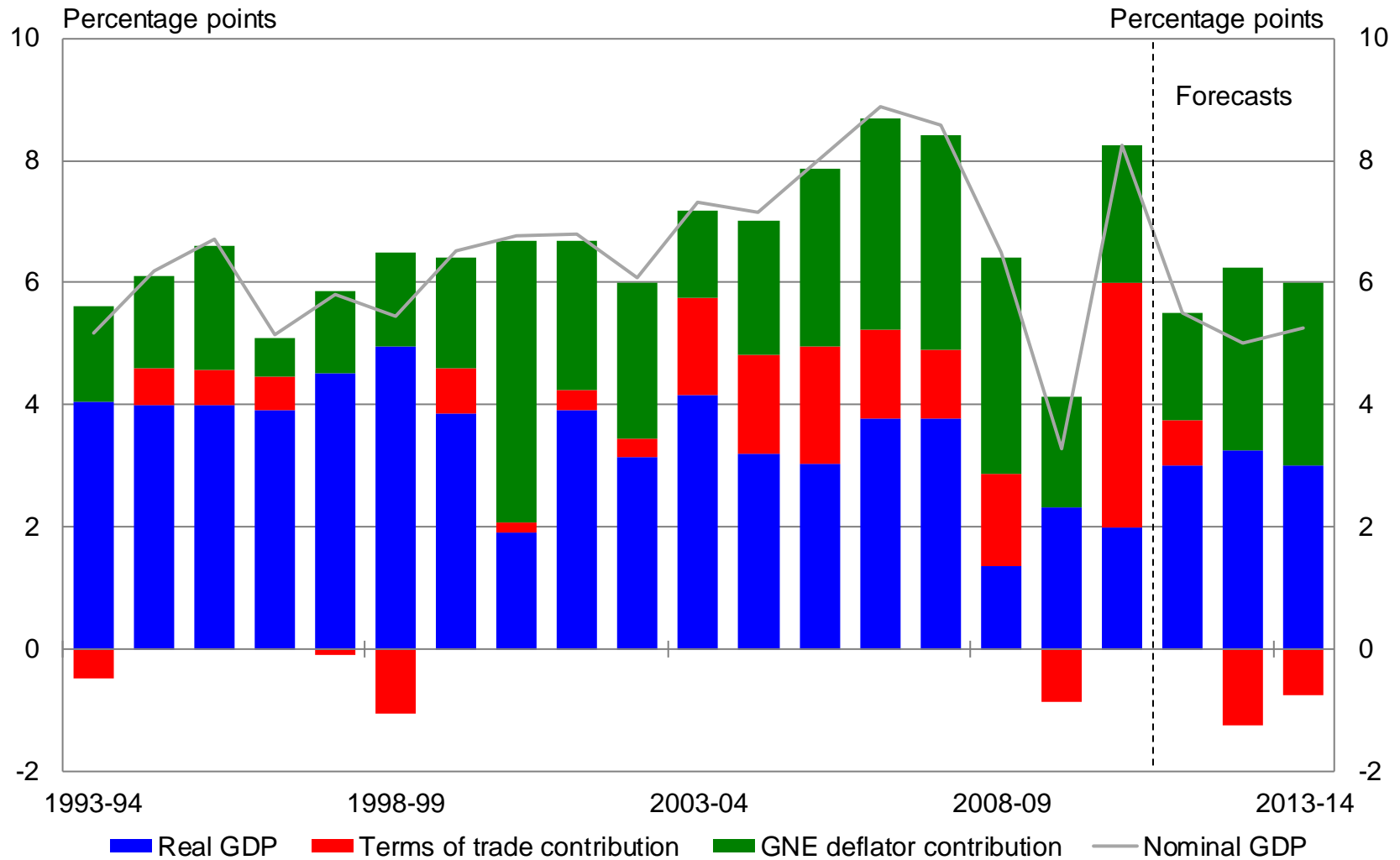
Allow tax receipts to recover naturally as the economy improves; and

Hold real growth in spending to 2 per cent a year until the budget returns to surplus.

The budget position over time



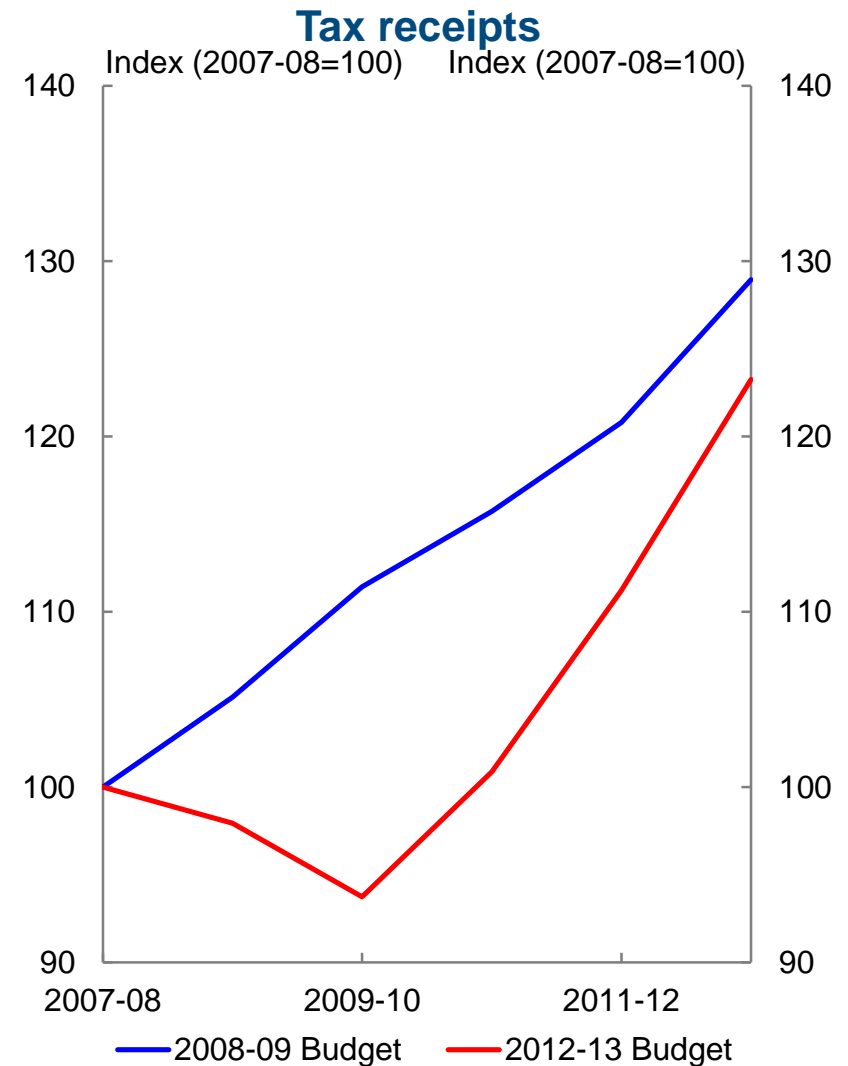
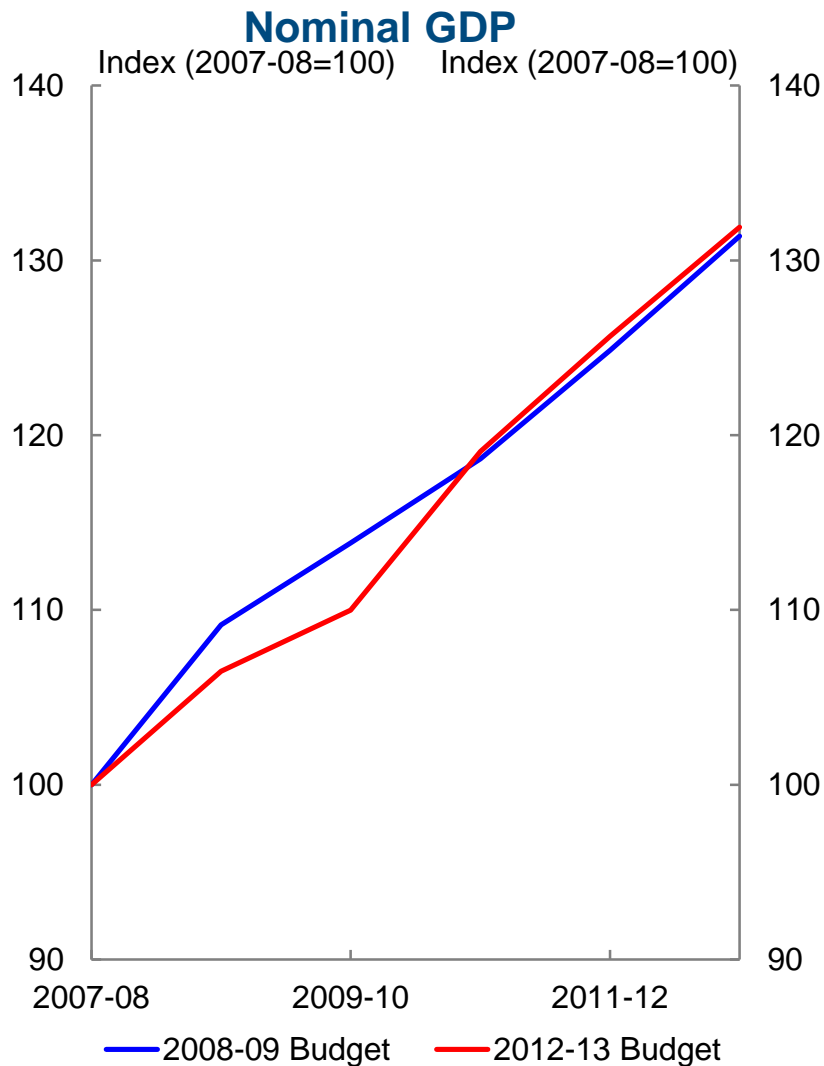
Components of nominal GDP growth



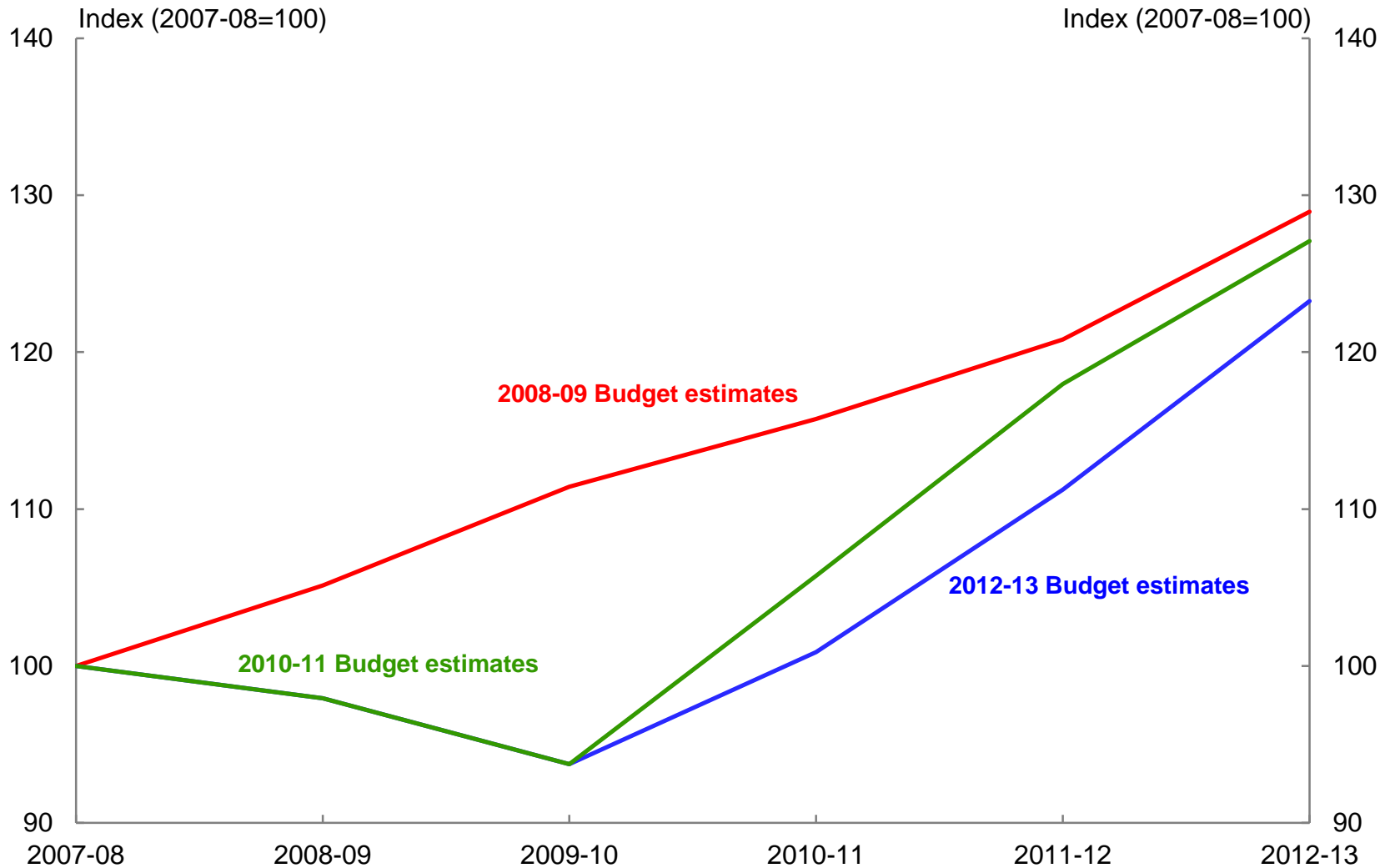
Note: The small discrepancy between nominal GDP and the sum of its components is due to interactions which cannot be attributed to individual components.

Source: ABS Catalogue Number 5206.0 and Treasury.

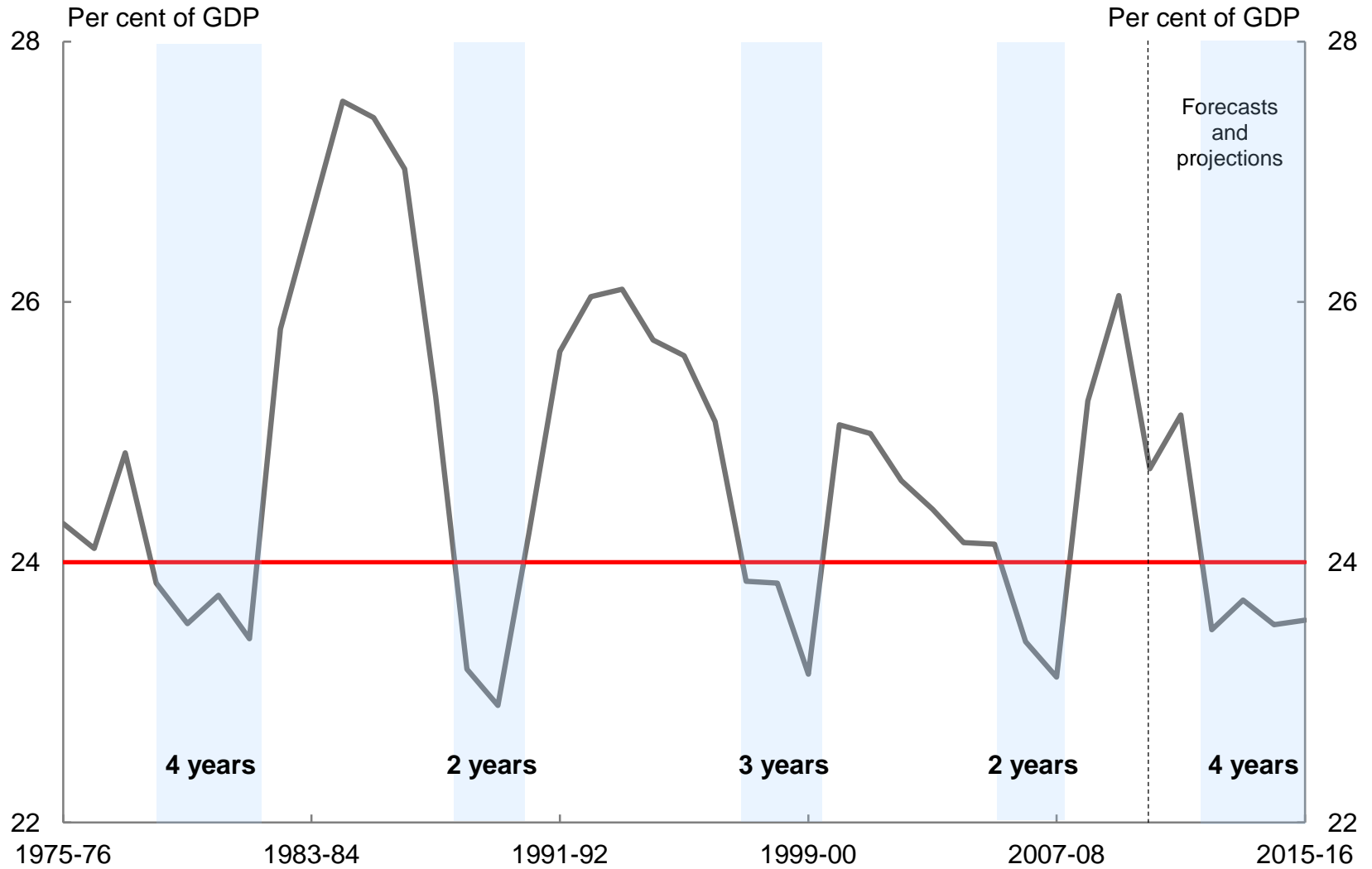
Change in GDP and tax receipts estimates



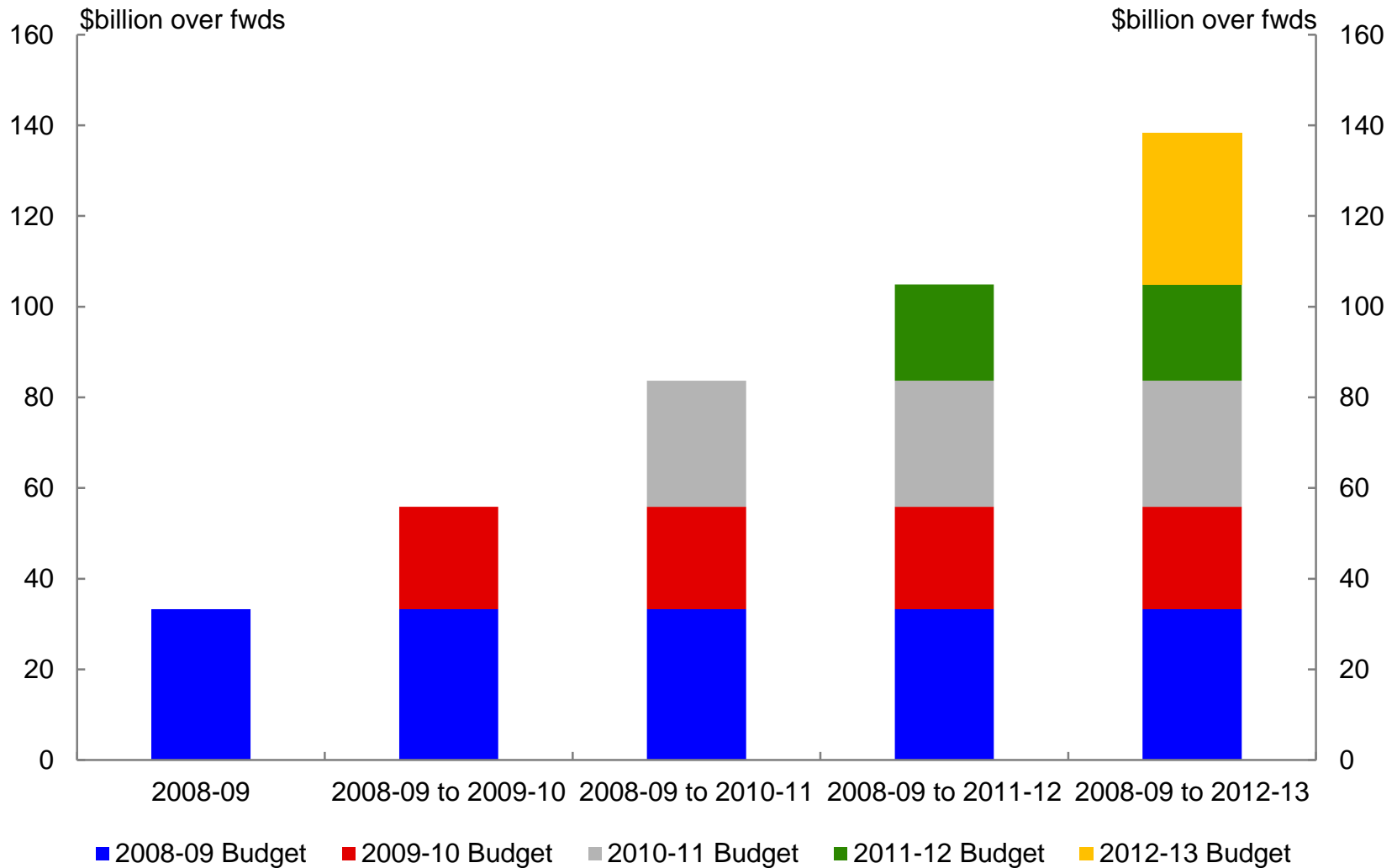
Change in tax receipts estimates



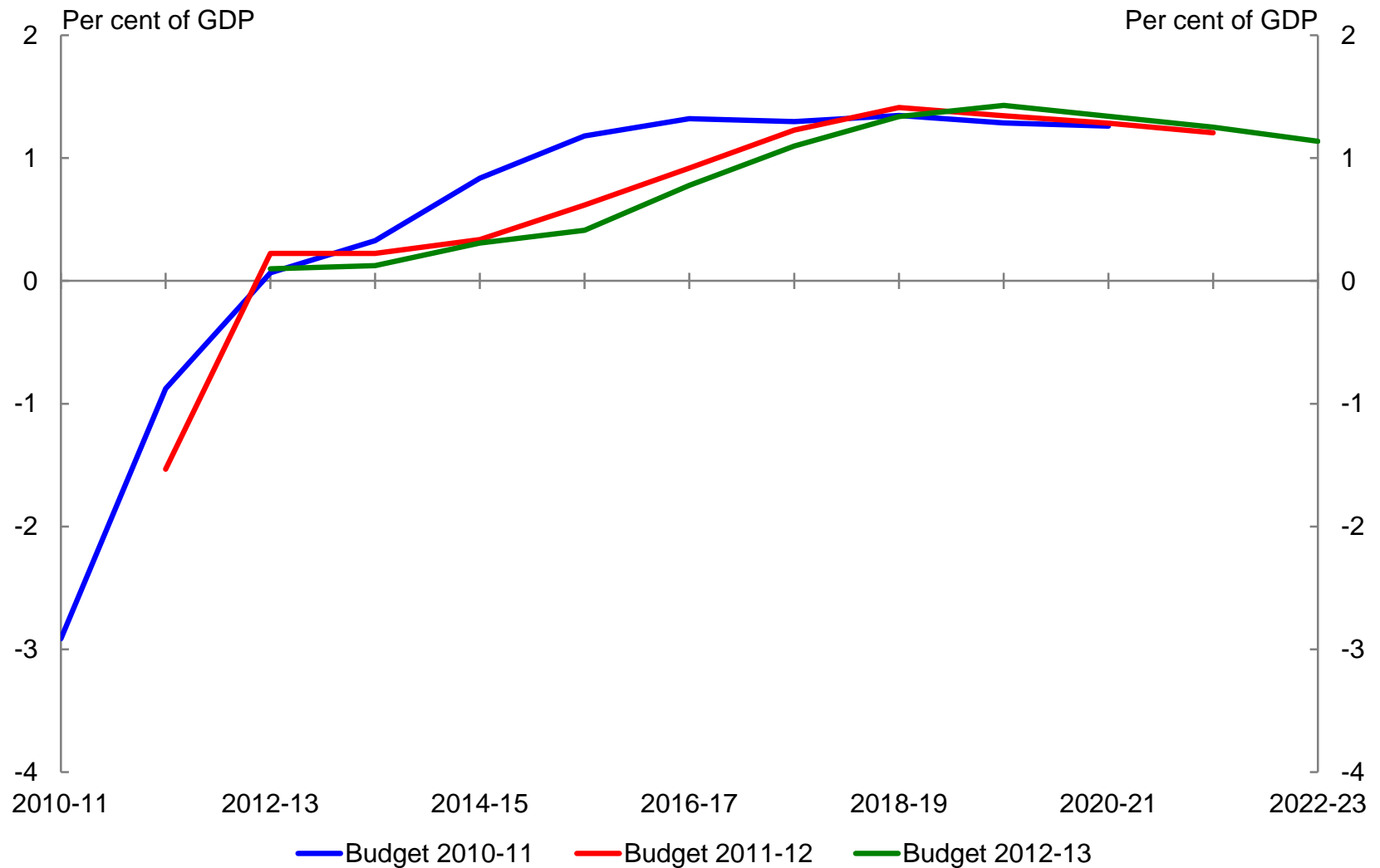
Sustained low payments



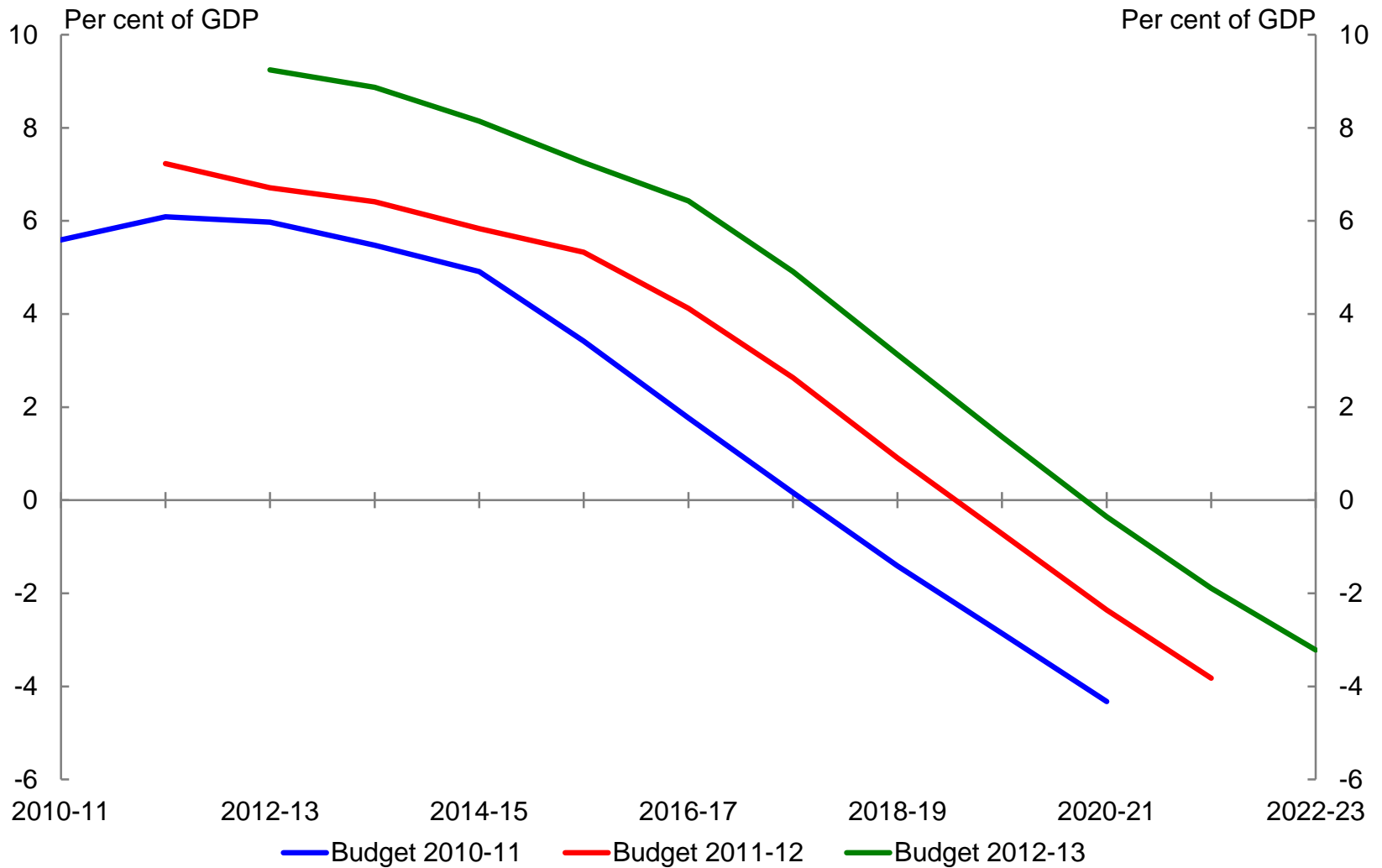
Cumulative budget savings



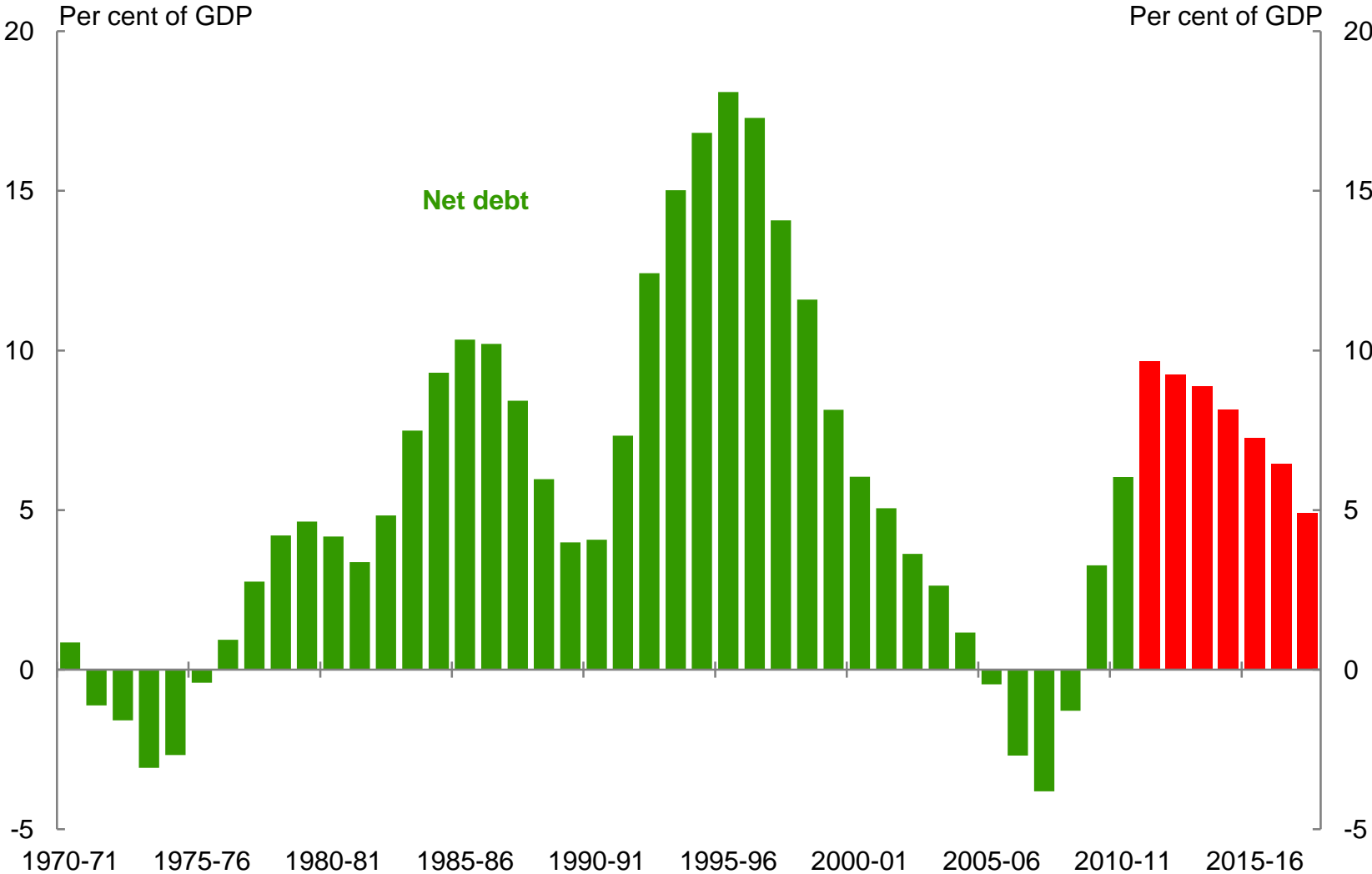
Medium-term underlying cash balance projections



Medium-term net debt projections



The long-term budget position



Balance sheet exposures

