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2019-20 Budget: Pre-election fiscal outlook

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Economic Policy section

With the federal election expected to be called shortly after the Budget on 2 April 2019, the Budget will form a significant part of the Government's economic strategy and its policy platform for the election.

The Budget is likely to reconfirm an improvement in the Commonwealth's fiscal position. The 2019-20 MYEFO forecast a return to surplus in 2019-20 with Commonwealth net debt forecast to peak (as a proportion of GDP) in 2018-19.

The Budget is also likely to contain some significant policy announcements. As the Parliamentary Library has previously noted the MYEFO included just over $10 billion worth of policy decisions taken by the Government which have not yet been announced. It has been speculated that these unannounced measures are further personal income tax cuts, to be revealed in the Budget.

Recent commentary has suggested that higher than expected iron prices, due to the collapse of the Vale tailings dam in Brazil, may lead to increased corporate tax receipts in the short term, providing the Government with scope to forecast higher surpluses or announce larger than anticipated tax cuts.[1] AMP Chief Economist Shane Oliver has suggested that corporate tax receipts could be $2 to $4 billion higher in 2018-19. [2]

However, there remain some downside risks to the International and domestic economy which are discussed further in the <insert link to Economic Outlook>.

The aim of this briefing is to provide some context for the 2019-20 Budget based on the latest economic and fiscal forecasts released at the 2018-19 MYEFO in December 2018. The figures are current at the time of publication but the Government's economic and fiscal forecasts will be updated with the release of the 2019-20 Budget on 2 April 2019.

1. D Gray, Federal budget to get multibillion-dollar boost from surging iron ore price, *Sydney Morning Herald*, 13 March 2019.
2. Ibid.

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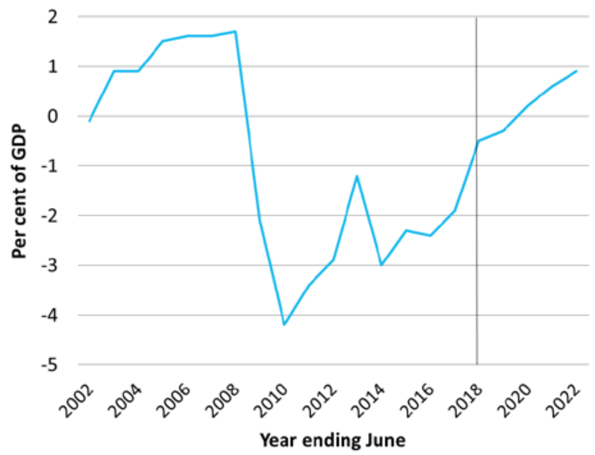
Figure 1. Underlying cash balance (UCB)

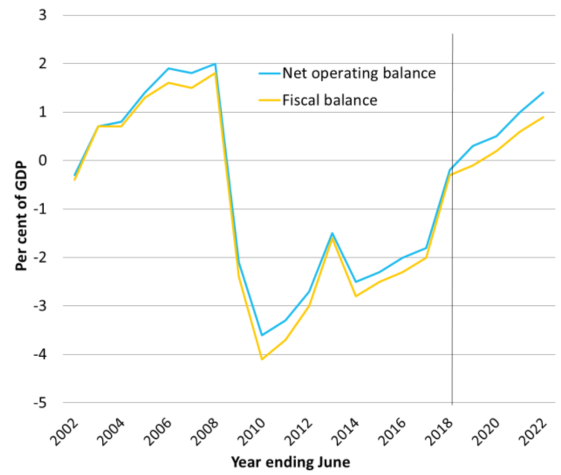


The Budget was forecast to be back in surplus by 2019–20, which will be the first Budget surplus since 2006–07.

MYEFO projected an improvement in the UCB from a deficit of $5.2 billion in 2018–19 (0.3 per cent of GDP) to a surplus of $4.1 billion (0.2 per cent of GDP) in 2019–20.

This UCB was projected to grow to a surplus of $18.9 billion by 2021-22 (0.9 per cent of GDP).

Figure 2. Net operating balance (NOB) and fiscal balance

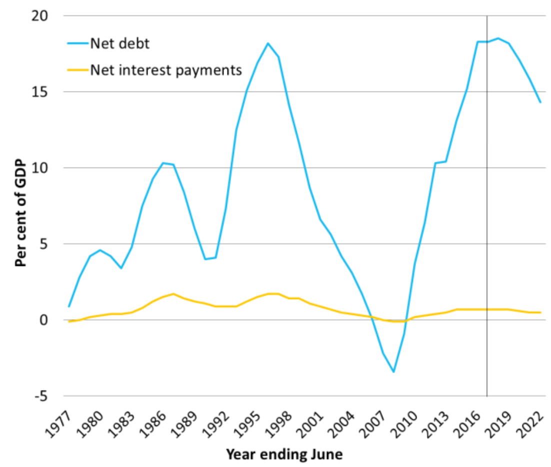


Other measures of the Budget balance provide insight into the impact of Government on the economy.

The net operating balance is expected to be in surplus by 0.3 per cent of GDP in 2018-19 growing to 1.4 per cent of GDP in 2021-22.

The fiscal balance (FB) approximates the contribution of the Australian general government sector to the current account balance in the balance of payments. In 2018-19 the FB is in deficit by 0.1 per cent of GDP growing to a surplus in 0.9 per cent of GDP in 2021-22.

Figure 3. Net debt

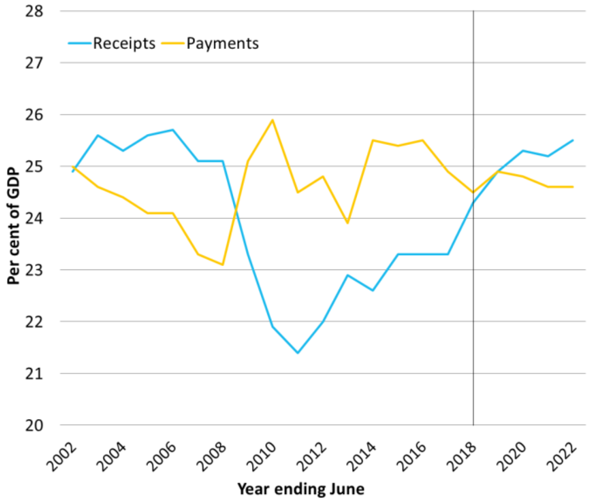


Increases in net debt affect net interest payments which are measured over the long-term in budget papers.

Net interest payments are around $13.4 billion in 2017–18, equivalent to around 0.7 per cent of GDP. This is the highest level since 2001–02, consistent with net debt sitting at a peak of 18.9 per cent of GDP.

Net interest payments are equivalent to around $478 per capita.

Figure 4. Receipts and payments



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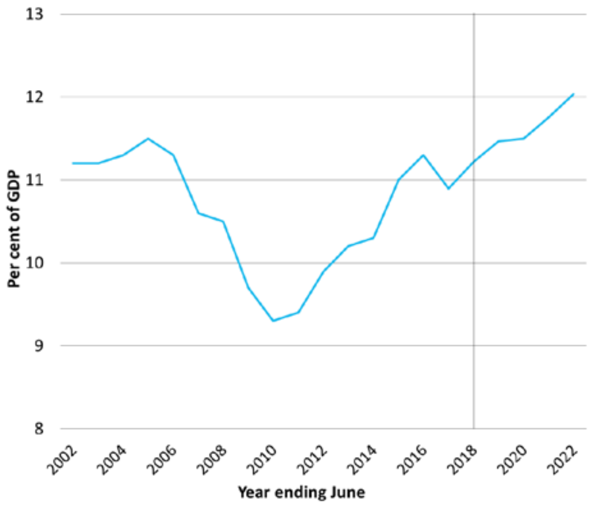
Achieving a UCB surplus depends on closing the gap between payments and receipts.

Strong growth in receipts is expected to be the main driver of fiscal consolidation over the forward estimates period. Growth in payments is expected to be constrained over the forward estimates period.

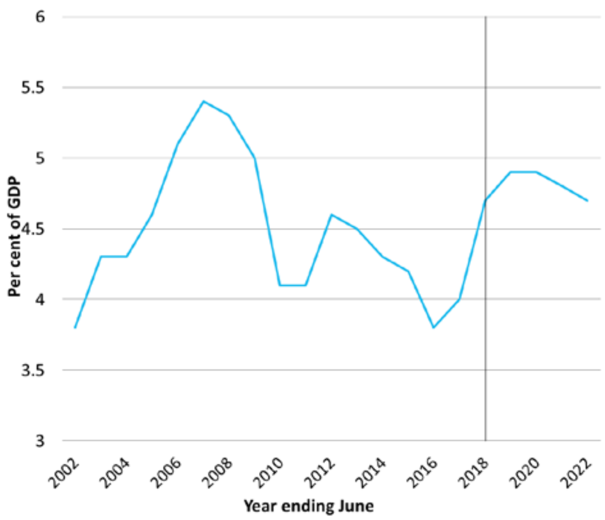
Figure 5. Personal income tax receipts



At MYEFO, personal income tax receipts were projected to grow to their highest level as a proportion of GDP since 1999–2000 at just over 12 per cent of GDP in 2021-22.

Some commentators have suggested that the Budget may announce further tax cuts in the upcoming Budget.

Figure 6. Corporate tax receipts (including PRRT*)

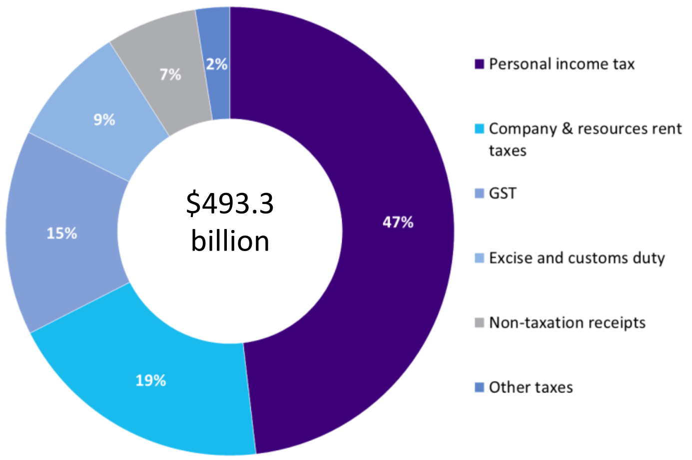


At MYEFO, corporate income tax receipts were anticipated to grow to 4.9 per cent of GDP in 2019-20, their highest level as a proportion of GDP since 2008-09.

Recently higher than anticipated iron ore prices are anticipated to drive higher corporate tax receipts than forecast at MYEFO.

* Petroleum Resource Rent Tax

Figure 6. Breakdown of revenue (2018-19)

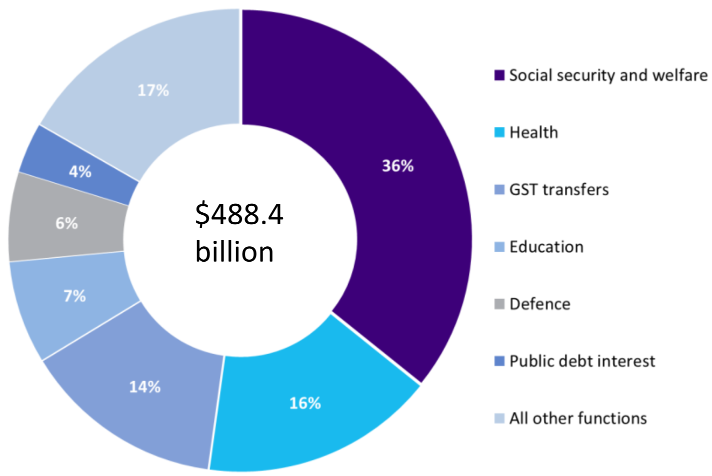


Personal income taxes (including capital gains tax (CGT) paid by individuals) account for just under half of government revenues.

A total of 19 per cent comes from taxes on companies (including CGT and resource rent taxes).

The goods and services tax accounts for around 15 per cent of Government revenue, the vast majority of which is transferred to the states and territories.

Figure 7. Breakdown of expenditure—functions (2018-19)

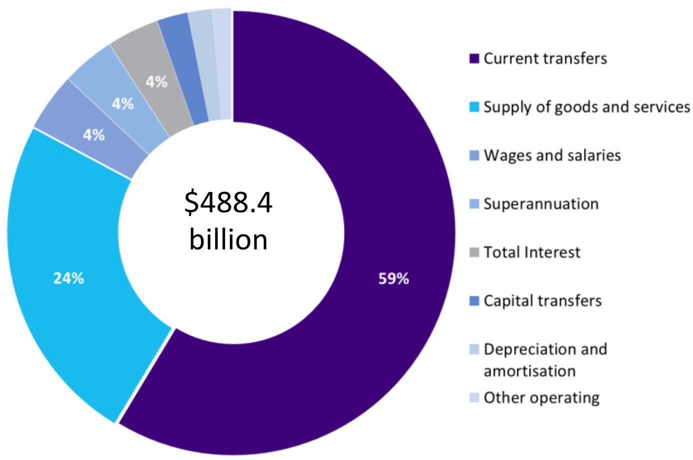


In terms of functions, social security and welfare account for 36 per cent of expenses.

The next largest single category is health, accounting for 16 per cent.

GST transfers to the states and territories account for 14 per cent of Government expenditure.

Figure 8. Breakdown of expenditure—economic (2018-19)



Current transfers account for almost 60 per cent of total payments. Many of these payments are made under special appropriations. This includes payments made to individuals and to the states and territories.

Supplies and services account for 22 per cent of payments. These include payments to suppliers, contractors and consultants, operating leases, health care payments and indirect personal benefits.

Wages and salaries, and superannuation expenses of the Commonwealth Government account for 4 per cent of total Government expenditure each.

Table 1. Underlying cash balance (2018-19 MYEFO)

$ billion	2017-18	2018-19	2019-20	2020-21	2021-22
Receipts	446.9	482.1	506.0	526.4	554.8
Payments	452.7	483.4	497.4	513.9	535.8
Underlying cash balance	-10.1	-5.2	4.1	12.5	19.0
% of GDP	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Receipts	24.3	24.9	25.3	25.2	25.5
Payments	24.5	24.9	24.8	24.6	24.6
Underlying cash balance	-0.5	-0.3	0.2	0.6	0.9

Table 2. Fiscal Balance (2018-19 MYEFO)

$ billion	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue	456.3	493.3	514.5	538.2	568.3
Expenditure	460.3	488.4	504.4	517.8	538.6
Net operating balance	-4.0	4.9	10.1	20.4	29.8
Net capital investment	1.3	6.8	5.8	8.1	9.8
Fiscal balance	-5.3	-1.9	4.3	12.3	20.0
% of GDP	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Revenue	24.7	25.5	25.7	25.8	26.1
Expenditure	24.9	25.2	25.2	24.8	24.7
Net operating balance	-0.2	0.3	0.5	1.0	1.4
Net capital investment	0.1	0.4	0.3	0.4	0.4
Fiscal balance	-0.3	-0.1	0.2	0.6	0.9

Table 3. Net Debt and Net interest payments (2018-19 MYEFO)

$ Billion	2017-18	2018-19	2019-20	2020-21	2021-22
Net debt	342.0	351.9	343.4	329.9	312.6
Net interest payments	13.1	14.0	11.5	11.3	10.4
% of GDP	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Net debt	18.3	18.5	18.2	17.1	15.8
Net interest payments	0.7	0.7	0.6	0.5	0.5