

FISCAL OUTLOOK

The underlying cash balance is expected to be a surplus of \$7.1 billion (0.4 per cent of GDP) in 2019-20, with further surpluses expected across the forward estimates.

Table 3 provides a summary of the major budget aggregates.

Table 3: Australian Government general government sector budget aggregates

	Estimates			Projections		Total(a)
	2018-19	2019-20	2020-21	2021-22	2022-23	
	\$b	\$b	\$b	\$b	\$b	\$b
Receipts	485.2	505.5	522.3	551.0	566.9	2,145.7
Per cent of GDP	25.0	25.2	25.1	25.4	25.0	
Payments(b)	482.8	493.3	511.3	533.2	557.7	2,095.6
Per cent of GDP	24.9	24.6	24.6	24.5	24.5	
Net Future Fund earnings(c)	6.6	5.1	na	na	na	5.1
Underlying cash balance(d)	-4.3	7.1	11.0	17.8	9.2	45.0
Per cent of GDP	-0.2	0.4	0.5	0.8	0.4	
Revenue	495.8	513.8	534.3	564.7	580.5	2,193.2
Per cent of GDP	25.6	25.6	25.7	26.0	25.6	
Expenses	487.4	500.9	516.1	535.9	559.9	2,112.8
Per cent of GDP	25.1	25.0	24.8	24.7	24.6	
Net operating balance	8.4	12.9	18.2	28.8	20.6	80.5
Per cent of GDP	0.4	0.6	0.9	1.3	0.9	
Net capital investment	6.5	4.7	7.7	9.7	10.8	33.0
Fiscal balance	1.9	8.1	10.4	19.1	9.8	47.5
Per cent of GDP	0.1	0.4	0.5	0.9	0.4	
<i>Memorandum items:</i>						
Net Future Fund earnings(c)	6.6	5.1	5.2	5.6	6.2	22.2
Headline cash balance	-12.8	-4.4	-0.5	7.9	2.5	5.5

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.

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

(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

(d) Excludes expected net Future Fund earnings before 2020-21.

Underlying cash balance estimates

Table 4 provides a reconciliation of the underlying cash balance estimates from the 2019-20 Budget to the 2019 PEFO.

Table 4: Reconciliation of underlying cash balance estimates

	Estimates			Projections		Total(a)
	2018-19	2019-20	2020-21	2021-22	2022-23	
	\$m	\$m	\$m	\$m	\$m	\$m
2019-20 Budget underlying cash balance(b)	-4,162	7,054	11,004	17,792	9,165	45,014
Per cent of GDP	-0.2	0.4	0.5	0.8	0.4	
Changes from 2019-20 Budget to 2019 PEFO						
Effect of policy decisions(c)(d)						
<i>Receipts</i>	0	-3	0	0	0	-3
<i>Payments</i>	93	0	1	0	0	0
Total policy decisions impact on underlying cash balance	-93	-2	-1	0	0	-3
Effect of parameter and other variations(d)						
<i>Receipts</i>	0	2	12	0	0	14
<i>Payments</i>	0	2	12	0	0	14
<i>less Net Future Fund earnings(e)</i>	0	0	na	na	na	0
Total parameter and other variations impact on underlying cash balance	0	0	0	0	0	0
2019 PEFO underlying cash balance(b)	-4,254	7,051	11,003	17,792	9,165	45,011
Per cent of GDP	-0.2	0.4	0.5	0.8	0.4	
<i>Memorandum:</i>						
<i>Net Future Fund earnings(e)</i>	6,592	5,140	5,207	5,563	6,249	22,159

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.

(b) Excludes expected net Future Fund earnings before 2020-21.

(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 improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

(e) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

Consistent with the Charter, 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 Thursday 11 April 2019. 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.

Policy decisions taken since the 2019-20 Budget have had a negative underlying cash balance impact of \$93 million in 2018-19 and \$3 million over the four years to 2022-23. This primarily reflects the decision to extend the Energy Assistance Payment to additional welfare payments, which is expected to increase payments by \$88 million in 2018-19.

Details of all policy decisions taken since the 2019-20 Budget are provided at Appendix B. Differences in the financial impact of policy decisions presented in Table 4 and Appendix B reflect differences between cash and accrual accounting.

Since the 2019-20 Budget, parameter and other variations have resulted in increased cash payments of \$14 million over the four years to 2022-23, reflecting the net change to payments of border clearance costs for the Department of Home Affairs associated with the redevelopment of border services at the Gold Coast Airport. This increase in payments is fully offset by a corresponding increase in receipts reflecting that the net costs for the redevelopment of the Gold Coast Airport will be recovered from the Airport operator.

Economic parameters are unchanged from those presented in the 2019-20 Budget. More detail is provided in the Economic Outlook.

Forecasts for tax receipts are unchanged since the 2019-20 Budget, consistent with the unchanged economic projections.

As reported in the Economic Outlook, commodity prices are a source of uncertainty for nominal GDP and, therefore, the outlook for tax receipts. Analysis presented in the 2019-20 Budget suggests that a ten per cent fall in non-rural commodity prices through 2019-20 could reduce tax receipts by around \$2.2 billion in 2019-20 and \$6.7 billion in 2020-21. Analysis on the effect of commodity price movements on nominal GDP and revenue forecasts is discussed in *2019-20 Budget Statement 2: Economic Outlook* and *2019-20 Budget Statement 7: Forecasting Performance and Scenario Analysis*.

In line with normal practice, the forward estimates in the PEFO do not incorporate ongoing funding for some items that are considered on a year by year or more frequent basis, including defence operations, the potential listings of new drugs recommended by the Pharmaceutical Benefits Advisory Committee and costs associated with regional processing arrangements. Payments to partly reimburse states and territories for any future natural disasters under the Natural Disaster Relief and Recovery Arrangements and the Disaster Recovery Funding Arrangements are also not included in the forward estimates.

Contingency Reserve

The Contingency Reserve estimates in the 2019 PEFO have been reduced since the 2019-20 Budget by \$29.6 million over the five years to 2022-23, reflecting the removal of decisions taken but not yet announced (DTBNYA) from the 2019-20 Budget, which have now been reflected against entity estimates. Further information about the removal of these DTBNYA items previously included in the 2019-20 Budget is available at Appendix B, Table 2.

Consistent with past practice, the DTBNYA lines in *2019-20 Budget Paper 2: Budget Measures*, 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 2019-20 Budget.

Overall in the 2019 PEFO, the Contingency Reserve estimates reduce expenses by \$2.0 billion in 2018-19 and \$222 million in 2019-20, and increase expenses by \$2.1 billion in 2020-21, \$4.3 billion in 2021-22 and \$9.0 billion in 2022-23. The largest components of the Contingency Reserve are unchanged from the 2019-20 Budget and are as follows:

- an underspend provision in 2018-19 that reflects the tendency for budgeted expenses for some entities or functions not to be met;
- 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 (\$2.2 billion in 2020-21, \$4.6 billion in 2021-22 and \$9.5 billion in 2022-23);
- a provision to reflect the effects of economic parameter revisions received too late in the 2019-20 Budget process for inclusion in entity estimates; and
- a provision of \$138 million over four years from 2019-20 for the continuation of some expiring National Partnerships and possible by-election costs for the Australian Electoral Commission.

As also noted in the 2019-20 Budget, the Contingency Reserve contains estimates for measures which have been announced but cannot yet be included in entity estimates, usually due to some uncertainty as to their final cost and/or outcomes, or because they are subject to negotiations.

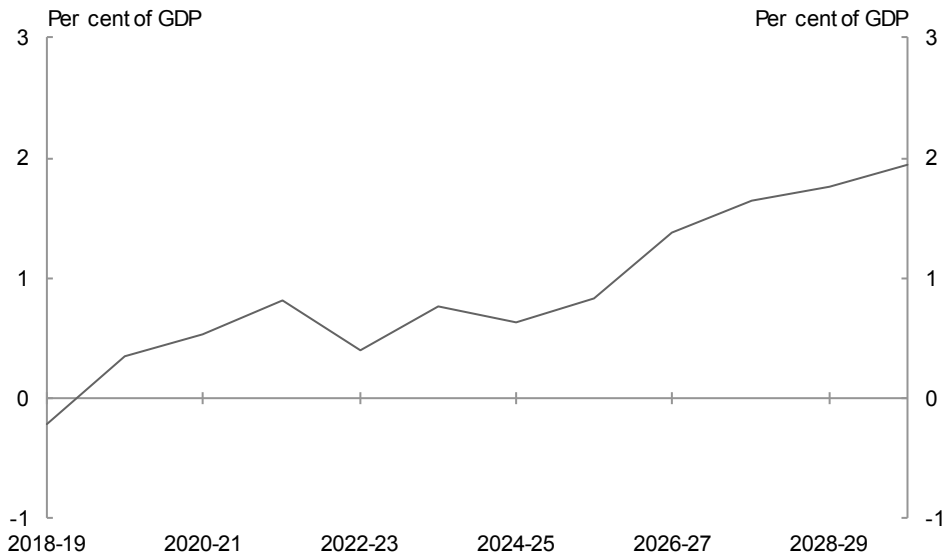
- Significant expenditure items include a provision for the *Indigenous Recognition Referendum* (\$160 million in 2020-21) and funding for the establishment of the Commonwealth Integrity Commission from the 2019-20 Budget *Commonwealth Integrity Commission* measure (\$104 million over the four years from 2019-20). Estimates for the Commonwealth Integrity Commission will be transferred to the entity once it is established.
- Significant balance sheet items include the 2018-19 MYEFO *Future Drought Fund – establishment* measure and the 2019-20 Budget *Establishment of the Emergency Response Fund* measure, as the estimates remain subject to the finalisation of the investment mandates for the Funds.

The remaining items in the Contingency Reserve have not changed since the 2019-20 Budget and remain unable to be disclosed for commercial-in-confidence or national security reasons.

Medium-term fiscal outlook

The underlying cash balance is projected to record surpluses through to the end of the forward estimates and build to 1.9 per cent of GDP by 2029-30 (Chart 1). The medium-term outlook is unchanged since the 2019-20 Budget.

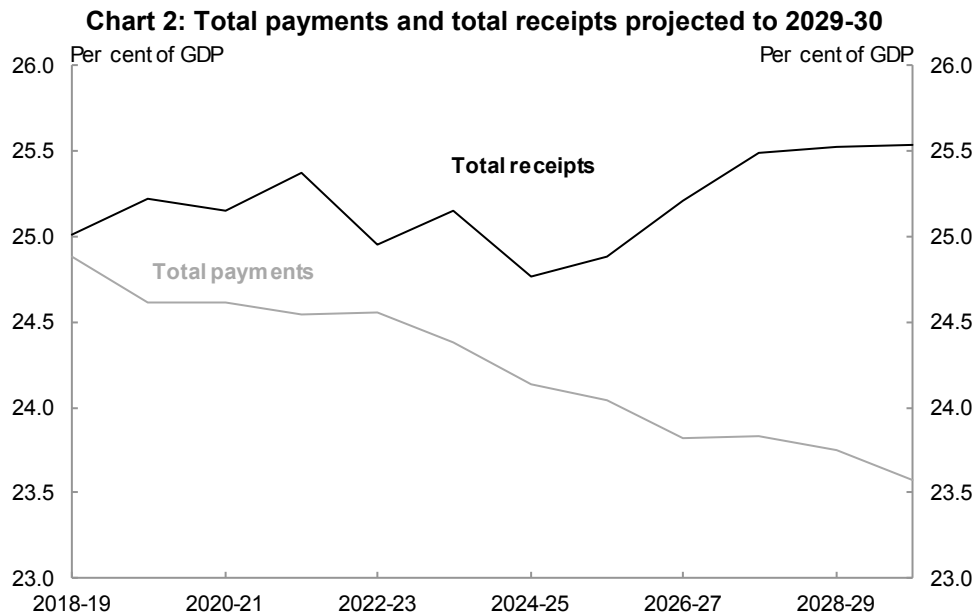
Chart 1: Underlying cash balance projected to 2029-30



Note: The tax-to-GDP cap of 23.9 per cent is reached in 2029-30. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21.
Source: Treasury projections.

Projections of the underlying cash balance over the medium term include the impact of the personal income tax measures outlined in the 2019-20 Budget. This is partially offset by lower payments, which drive an improvement in the underlying cash balance by the end of the medium term.

Chart 2 shows total payments and total receipts projected to 2029-30.



Note: The tax-to-GDP cap of 23.9 per cent is reached in 2029-30. Total receipts include taxation and non-taxation receipts.
 Source: Treasury projections.

Treasury’s medium-term fiscal projections outline the broad trajectory of the fiscal position under current policy settings. They use the Budget’s forward estimates as a base. Therefore they are subject to risks and uncertainties similar to those affecting the forward estimates. However, the longer timeframes across the medium term mean these risks and uncertainties can be amplified.

Beyond the forward estimates, a range of assumptions are used to project medium-term government receipts and payments. In particular, the projections assume no policy change and are based on economic projections underpinned by the medium-term methodology outlined earlier in the Economic Outlook. Changes to underlying assumptions, for example, deviations of the economy from its assumed trend growth or future government policy changes can have large impacts on projections of the underlying cash balance. The sensitivity of projections to underlying assumptions is shown in 2019-20 Budget Statement 7.

Net operating balance estimates

The net operating balance is expected to be a surplus of \$12.9 billion (0.6 per cent of GDP) in 2019-20, improving to a surplus of \$20.6 billion (0.9 per cent of GDP) in 2022-23.

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 net operating balance estimates.

Table 5: Reconciliation of net operating balance estimates

	Estimates			Projections		Total(a)
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m	
2019-20 Budget net operating balance	8,452	12,891	18,155	28,791	20,606	80,443
Per cent of GDP	0.4	0.6	0.9	1.3	0.9	
Changes from 2019-20 Budget to 2019 PEFO						
Effect of policy decisions(b)(c)						
<i>Revenue</i>	0	-2	1	1	2	1
<i>Expenses</i>	93	0	1	1	1	2
Total policy decisions impact on net operating balance	-93	-2	0	1	1	-1
Effect of parameter and other variations(c)						
<i>Revenue</i>	0	2	12	0	0	14
<i>Expenses</i>	0	2	2	0	0	4
Total parameter and other variations impact on net operating balance	0	0	9	0	0	9
2019 PEFO net operating balance	8,360	12,889	18,164	28,792	20,607	80,452
Per cent of GDP	0.4	0.6	0.9	1.3	0.9	
<i>Net capital investment</i>						
Effect of net capital investment(d)	6,490	4,749	7,727	9,715	10,780	32,970
2019 PEFO fiscal balance	1,870	8,140	10,437	19,077	9,827	47,482
Per cent of GDP	0.1	0.4	0.5	0.9	0.4	

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.

(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 improves the net operating balance, while a positive number for expenses worsens the net operating balance.

(d) A positive number for net capital investment worsens the fiscal balance.

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

Estimates of net debt, net financial worth, net worth and net interest payments have not materially changed since the 2019-20 Budget. In 2019-20, net debt for the Australian Government general government sector is expected to be \$361.1 billion (18 per cent of GDP) and is projected to decline to zero per cent of GDP by 2029-30. In 2019-20, net financial worth is estimated to be -\$488.1 billion and net worth is estimated to be -\$333.4 billion. Net financial worth is projected to improve as a share of GDP over the medium term, reaching -3.3 per cent by 2029-30. The face value of Australian Government Securities (AGS) on issue (gross debt) remains unchanged since the 2019-20 Budget. Gross debt is projected to fall to around 12.8 per cent of GDP (\$416.8 billion) by 2029-30.

Net interest payments are estimated to be \$10.9 billion in 2019-20 (0.5 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 AGS and the prevailing market interest rates across the yield curve for future issuance of AGS. This PEFO assumes a weighted average cost of borrowing of around 1.9 per cent for future issuance of Treasury Bonds in the forward estimates period, the same as the assumed market yields used in the 2019-20 Budget. Yields affect the amount of public debt interest the Government has to pay on its borrowings as well as the receipts earned on Government investments. Yields also have an impact on valuations of net debt and net worth. In the medium term, yields are assumed to converge to the assumed long-run rate of 5 per cent consistent with the Budget assumption. Analysis on the sensitivity of the fiscal estimates to changes in modelling assumptions about yields on government debt is provided in 2019-20 Budget Statement 7.

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	
	2018-19	2019-20	2020-21	2021-22	2022-23
	\$b	\$b	\$b	\$b	\$b
Financial assets	431.7	456.3	477.6	507.3	520.3
Non-financial assets	149.9	154.7	161.5	170.0	179.4
Total assets	581.6	610.9	639.1	677.3	699.6
Total liabilities	922.6	944.3	954.6	964.6	967.2
Net worth	-341.0	-333.4	-315.5	-287.3	-267.6
Net financial worth(a)	-490.9	-488.1	-477.0	-457.3	-446.9
Per cent of GDP	-25.3	-24.4	-23.0	-21.1	-19.7
Net debt(b)	373.6	361.1	349.6	333.3	326.2
Per cent of GDP	19.3	18.0	16.8	15.3	14.4
Net interest payments	14.1	10.9	10.4	9.4	8.7
Per cent of GDP	0.7	0.5	0.5	0.4	0.4

(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.