



# Pre-election Economic and Fiscal Outlook 2019

A report by  
The Secretary to the Treasury  
and  
The Secretary of the Department of Finance

April 2019

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## Notes

- (a) The following definitions are used in the Pre-election Economic and Fiscal Outlook (PEFO):
- 'real' means adjusted for the effect of inflation;
  - real growth in expenses and payments is calculated using the Consumer Price Index (CPI) as the deflator;
  - the Budget year refers to 2019-20, while the forward years refer to 2020-21, 2021-22 and 2022-2023; and
  - one billion is equal to one thousand million.
- (b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:
- estimates under \$100,000 are rounded to the nearest thousand;
  - estimates \$100,000 and over are generally rounded to the nearest tenth of a million;
  - estimates midway between rounding points are rounded up; and
  - the percentage changes in statistical tables are calculated using unrounded data.
- (c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.
- (d) The following notations are used:
- |         |   |
|---------|---|
| -       | nil   |
| na      | not applicable (unless otherwise specified) |
| \$m     | millions of dollars                         |
| \$b     | billions of dollars                         |
| nfp     | not for publication                         |
| (e)     | estimates (unless otherwise specified)      |
| (p)     | projections (unless otherwise specified)    |
| NEC/nec | not elsewhere classified                    |

- (e) The Australian Capital Territory and the Northern Territory are referred to as 'the territories'. References to the 'states' or 'each state' include the territories. The following abbreviations are used for the names of the states, where appropriate:

NSW	New South Wales
VIC	Victoria
QLD	Queensland
WA	Western Australia
SA	South Australia
TAS	Tasmania
ACT	Australian Capital Territory
NT	Northern Territory

- (f) In this paper the term 'Commonwealth' refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

The term 'Australian Government' is used when referring to the Government and the decisions and activities made by the Government on behalf of the Commonwealth of Australia.

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## PREFACE

The *Charter of Budget Honesty Act 1998* (the Charter) provides for the Secretary to the Treasury and the Secretary of the Department of Finance (the Secretaries) to release publicly a Pre-election Economic and Fiscal Outlook report (PEFO) within 10 days of the issue of the writs for a general election. Such writs were issued on 11 April 2019.

The purpose of the PEFO is to provide updated information on the economic and fiscal outlook. The information in the report takes into account, to the fullest extent possible, all Government decisions and all other circumstances that may have a material effect on the economic and fiscal outlook that were in existence before the issue of the writs for the election.

The Charter provides that, where there is information unchanged from that set out in full in an earlier budget report, the PEFO may summarise and state this information is unchanged. As the writs for the 2019 election were issued shortly after the release of the 2019-20 Budget, this PEFO provides reference to information published in the 2019-20 Budget where it is unchanged.

Consistent with the requirements of the Charter, the PEFO includes:

- fiscal estimates and projections for the current financial year (2018-19) and the following four financial years (2019-20, 2020-21, 2021-22 and 2022-23);
- economic and other assumptions for the current financial year and the following four financial years used in preparing these updated fiscal estimates;
- discussion of the sensitivity of updated fiscal estimates to changes in those economic and other assumptions and refers to the detailed analysis in the 2019-20 Budget that remains unchanged;
- an updated set of financial statements and summary of the external reporting standards used in the preparation of the PEFO (**Appendix A**);
- a list of policy decisions taken by the Government since the 2019-20 Budget and decisions that were taken but not announced at that time (**Appendix B**). The PEFO does not include the impact of commitments made in the context of the current election campaign; and
- an updated statement of the risks that may have a material effect on the fiscal outlook (**Appendix C**).

## STATEMENT BY THE TREASURER AND THE MINISTER FOR FINANCE AND THE PUBLIC SERVICE

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.



The Hon Josh Frydenberg MP  
Treasurer

11 April 2019



Senator the Hon Mathias Cormann  
Minister for Finance and the Public  
Service

11 April 2019



## STATEMENT BY THE SECRETARY TO THE TREASURY AND THE SECRETARY OF THE DEPARTMENT OF FINANCE

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 2019 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.



Mr Philip Gaetjens  
Secretary to the Treasury  
17 April 2019



Ms Rosemary Huxtable, PSM  
Secretary, Department of Finance  
17 April 2019



# PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK

## OVERVIEW

Consistent with the Charter, the 2019 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 issue of the election writs.

The economic and fiscal outlook for the Commonwealth has not materially changed since the publication of the 2019-20 Budget on 2 April 2019.

An underlying cash surplus of \$7.1 billion (0.4 per cent of GDP) is expected in 2019-20, with further surpluses expected across the forward estimates. Table 1 provides estimates and projections of the underlying cash and net operating balance for the period from 2018-19 to 2022-23.

**Table 1: Budget aggregates**

	Estimates			Projections		Total(a)
	2018-19	2019-20	2020-21	2021-22	2022-23	
<b>Underlying cash balance (\$b)(b)</b>	<b>-4.3</b>	<b>7.1</b>	<b>11.0</b>	<b>17.8</b>	<b>9.2</b>	<b>45.0</b>
Per cent of GDP	-0.2	0.4	0.5	0.8	0.4	
<b>Net operating balance (\$b)</b>	<b>8.4</b>	<b>12.9</b>	<b>18.2</b>	<b>28.8</b>	<b>20.6</b>	<b>80.5</b>
Per cent of GDP	0.4	0.6	0.9	1.3	0.9	

(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.

## **ECONOMIC OUTLOOK**

Real GDP is forecast to grow at around its estimated potential rate of 2¾ per cent in 2019-20 and 2020-21, sustaining solid employment growth and supporting a pick-up in wage growth. Household consumption, business investment, public final demand and exports are all expected to contribute to growth. Dwelling investment is expected to detract from growth, following declines in housing prices and building approvals partly in response to a rebalancing of supply and demand.

The economy is expected to continue to benefit from solid global growth, especially amongst Australia's major trading partners. Global growth strengthened in 2017 and into 2018, with robust labour market conditions driving down unemployment rates in advanced economies. But growth slowed in a number of economies in the second half of 2018. Growth in Australia's major trading partners has outpaced global growth over the past decade and this is expected to continue as growth in the Asian region remains relatively strong. Australia's major trading partners are forecast to grow by 4 per cent in 2019, 2020 and 2021.

Accommodative monetary policy settings continue to support the domestic economy, despite some evidence that tightening credit conditions and a recent decline in housing prices are weighing on activity. The Australian dollar remains at levels which are supportive of growth – around one-third lower than the 2011 peak against the US dollar.

Household consumption growth is expected to pick up over the forecast period, supported by continued growth in employment, increasing wage growth, historically low interest rates and personal income tax measures.

Non-mining business investment is forecast to record solid growth, supported by historically low interest rates, while mining investment is expected to make its first contribution to real GDP growth in around seven years. Public final demand will contribute to growth, supported by the National Disability Insurance Scheme and infrastructure investment.

Growth in exports in 2019-20 is expected to be supported by major liquefied natural gas (LNG) projects ramping up production and continuing strong demand from Asia for education and travel services. Rural exports are expected to contribute to growth in 2019-20 on the basis of an assumed return to average seasonal conditions after detracting from growth in 2018-19 due to the drought. Export growth is expected to moderate in 2020-21, in line with more modest capacity expansions in the mining sector.

Dwelling investment is expected to detract from growth over the forecast period. Recent falls in residential building approvals have occurred alongside falls in housing prices, which accelerated over 2018 and have continued into 2019. Capital city housing prices have fallen by 9.2 per cent from their most recent peak in September 2017. Price falls have been largest in Sydney and Melbourne over that period, although prices remain around 40 to 50 per cent higher in those cities relative to their 2012 levels.

The labour market is strong, with employment recently growing above its long-run average growth rate. The unemployment rate is at its lowest level in more than seven years and the participation rate is at a near-record high. Solid employment growth is expected to continue and the unemployment rate is forecast to be 5 per cent over the forecast period.

As growth in the economy picks up and spare capacity in the labour market continues to be absorbed, wage growth and inflation are expected to increase. Wage growth, as measured by the Wage Price Index, is expected to pick up to 2¾ per cent through the year to the June quarter 2020 and 3¼ per cent through the year to the June quarter 2021. Consumer price inflation is forecast to be 2¼ per cent through the year to the June quarter 2020 and 2½ per cent through the year to the June quarter 2021.

Nominal GDP is forecast to grow by 5 per cent in 2018-19, 3¼ per cent in 2019-20 and 3¾ per cent in 2020-21. Nominal GDP growth is influenced by the terms of trade, which have been supported in recent months by higher-than-assumed commodity prices, in particular for iron ore and metallurgical coal. The terms of trade are forecast to fall in 2019-20, detracting from nominal GDP growth, as prices of some key commodities are assumed to decline to more sustainable levels. Comprehensive market and industry consultation undertaken by Treasury supports this judgment.

The forecasts reflect technical assumptions for key commodity prices. Since the 2019-20 Budget, the thermal coal spot price has been lower than assumed, but this has been somewhat offset by a higher-than-assumed iron ore price. The oil price, and therefore the LNG price, has also been higher than the Budget assumption. Given short-term volatility and offsetting movements in individual commodity prices, these differences are judged not to give rise to a material change in nominal GDP. The technical assumptions remain unchanged from Budget. 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*.

As always there are a number of risks and uncertainties around the forecasts that continue to evolve. These are largely unchanged from those presented in *2019-20 Budget Statement 2*.

Internationally, there is a high degree of uncertainty, which appears to be weighing on measures of global confidence amid a range of economic and geopolitical risks. Some risks have lessened in recent months, notably those from a further escalation in trade tensions between the US and China and those associated with tightening monetary policy. Others, such as risks around the Italian financial sector, are largely unchanged, while the risks associated with Brexit have become more pronounced in recent months, although Australia's trade is oriented more towards Asia than Europe. In the near term, there is also uncertainty associated with how quickly some of the temporary factors that affected global growth in the second half of 2018 will dissipate.

Domestically, uncertainty about the outlook for the housing market, in particular the extent to which housing prices fall further, poses a downside risk to the outlook for both dwelling investment and consumption. A more subdued outlook for household income, or a further tightening in credit conditions, could also constrain household spending amid high levels of household debt. In contrast, faster-than-expected wage or employment growth could lead to household consumption growth being stronger than forecast. There are uncertainties around rural exports given that the outlook will depend on how weather conditions develop. The outlook for commodity prices is a source of significant uncertainty for nominal GDP, but the assumptions for these prices remain prudent.

Table 2 presents the major economic parameters used in preparing the 2019 PEFO. These reflect the best professional judgment of Treasury and are unchanged from those presented in the 2019-20 Budget.

**Table 2: Major economic parameters<sup>(a)</sup>**

	Outcomes		Forecasts		Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Real GDP	2.8	2 1/4	2 3/4	2 3/4	3	3
Employment	2.7	2	1 3/4	1 3/4	1 1/2	1 1/2
Unemployment rate	5.4	5	5	5	5	5
Consumer price index	2.1	1 1/2	2 1/4	2 1/2	2 1/2	2 1/2
Wage price index	2.1	2 1/2	2 3/4	3 1/4	3 1/2	3 1/2
Nominal GDP	4.7	5	3 1/4	3 3/4	4 1/2	4 1/2

(a) Year-average growth unless otherwise stated. From 2017-18 to 2020-21, 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 current financial year, the Budget year and the subsequent financial year. Beyond the forecast period, there is less information on which to prepare detailed forecasts. As such, 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 2019 PEFO uses the same projection methodology used in budgets and budget updates since the 2014-15 Budget.

That projection methodology assumes spare capacity in the economy at the end of the forecast period is absorbed over the following five years. This is a well-established approach but it is not without drawbacks.

The growth rate of potential GDP is estimated to be  $2\frac{3}{4}$  per cent over the next few years. As spare capacity is absorbed, productivity and labour market variables – including employment and the participation rate – are assumed to converge to their potential levels. To absorb the spare capacity in the economy, real GDP from 2021-22 is projected to grow faster than potential at 3 per cent. By the end of 2025-26, spare capacity is absorbed and real GDP is projected to grow at its potential rate thereafter.

Potential GDP is estimated based on an analysis of underlying trends for population, productivity and participation. In the long run, estimates of participation are affected by demographic factors, including the ageing of the population, while productivity is assumed to grow at its 30-year average rate. The unemployment rate is projected to be 5 per cent, consistent with estimates of the non-accelerating inflation rate of unemployment (NAIRU). Inflation is projected to be  $2\frac{1}{2}$  per cent, consistent with the mid-point of the RBA's medium-term target band. The terms of trade are projected to remain flat at around their 2005 level from 2022-23. For a discussion of the sensitivity of the GDP growth projections to estimates of potential output see 2019-20 Budget Statement 7.

## 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
<b>Receipts</b>	<b>485.2</b>	<b>505.5</b>	<b>522.3</b>	<b>551.0</b>	<b>566.9</b>	<b>2,145.7</b>
Per cent of GDP	25.0	25.2	25.1	25.4	25.0	
<b>Payments(b)</b>	<b>482.8</b>	<b>493.3</b>	<b>511.3</b>	<b>533.2</b>	<b>557.7</b>	<b>2,095.6</b>
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
<b>Underlying cash balance(d)</b>	<b>-4.3</b>	<b>7.1</b>	<b>11.0</b>	<b>17.8</b>	<b>9.2</b>	<b>45.0</b>
Per cent of GDP	-0.2	0.4	0.5	0.8	0.4	
<b>Revenue</b>	<b>495.8</b>	<b>513.8</b>	<b>534.3</b>	<b>564.7</b>	<b>580.5</b>	<b>2,193.2</b>
Per cent of GDP	25.6	25.6	25.7	26.0	25.6	
<b>Expenses</b>	<b>487.4</b>	<b>500.9</b>	<b>516.1</b>	<b>535.9</b>	<b>559.9</b>	<b>2,112.8</b>
Per cent of GDP	25.1	25.0	24.8	24.7	24.6	
<b>Net operating balance</b>	<b>8.4</b>	<b>12.9</b>	<b>18.2</b>	<b>28.8</b>	<b>20.6</b>	<b>80.5</b>
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
<b>Fiscal balance</b>	<b>1.9</b>	<b>8.1</b>	<b>10.4</b>	<b>19.1</b>	<b>9.8</b>	<b>47.5</b>
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
<b>2019-20 Budget underlying cash balance(b)</b>	<b>-4,162</b>	<b>7,054</b>	<b>11,004</b>	<b>17,792</b>	<b>9,165</b>	<b>45,014</b>
Per cent of GDP	-0.2	0.4	0.5	0.8	0.4	
<b>Changes from 2019-20 Budget to 2019 PEFO</b>						
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
<b>2019 PEFO underlying cash balance(b)</b>	<b>-4,254</b>	<b>7,051</b>	<b>11,003</b>	<b>17,792</b>	<b>9,165</b>	<b>45,011</b>
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.

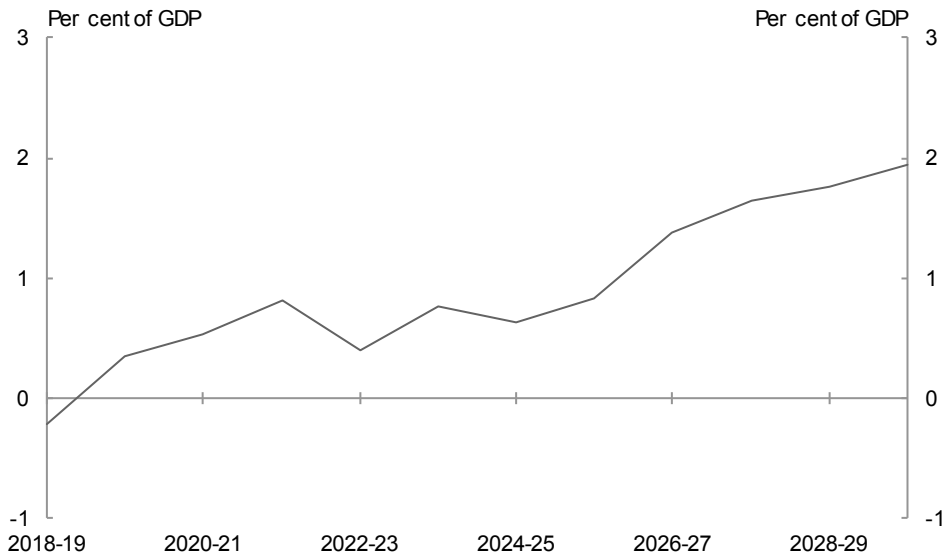
- Significant expenditure items include a provision for the *Indigenous Recognition Referendum* (\$160 million in 2020-21) and funding for the establishment of the Commonwealth Integrity Commission from the 2019-20 Budget *Commonwealth Integrity Commission* measure (\$104 million over the four years 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.

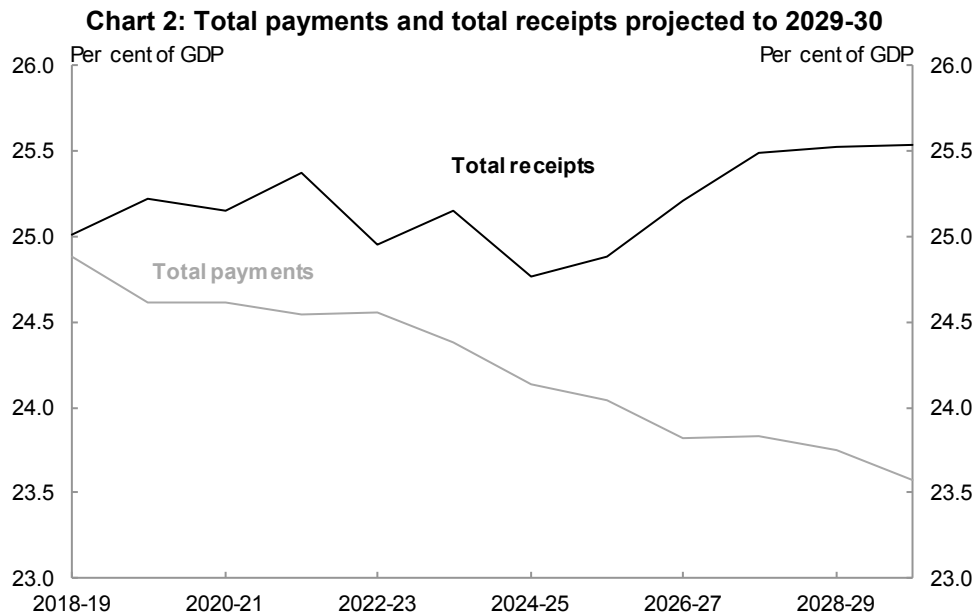
**Chart 1: Underlying cash balance projected to 2029-30**



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	
<b>2019-20 Budget net operating balance</b>	<b>8,452</b>	<b>12,891</b>	<b>18,155</b>	<b>28,791</b>	<b>20,606</b>	<b>80,443</b>
Per cent of GDP	0.4	0.6	0.9	1.3	0.9	
<b>Changes from 2019-20 Budget to 2019 PEFO</b>						
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
<b>2019 PEFO net operating balance</b>	<b>8,360</b>	<b>12,889</b>	<b>18,164</b>	<b>28,792</b>	<b>20,607</b>	<b>80,452</b>
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
<b>2019 PEFO fiscal balance</b>	<b>1,870</b>	<b>8,140</b>	<b>10,437</b>	<b>19,077</b>	<b>9,827</b>	<b>47,482</b>
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
<b>Total assets</b>	<b>581.6</b>	<b>610.9</b>	<b>639.1</b>	<b>677.3</b>	<b>699.6</b>
<b>Total liabilities</b>	<b>922.6</b>	<b>944.3</b>	<b>954.6</b>	<b>964.6</b>	<b>967.2</b>
<b>Net worth</b>	<b>-341.0</b>	<b>-333.4</b>	<b>-315.5</b>	<b>-287.3</b>	<b>-267.6</b>
<b>Net financial worth(a)</b>	<b>-490.9</b>	<b>-488.1</b>	<b>-477.0</b>	<b>-457.3</b>	<b>-446.9</b>
Per cent of GDP	-25.3	-24.4	-23.0	-21.1	-19.7
<b>Net debt(b)</b>	<b>373.6</b>	<b>361.1</b>	<b>349.6</b>	<b>333.3</b>	<b>326.2</b>
Per cent of GDP	19.3	18.0	16.8	15.3	14.4
<b>Net interest payments</b>	<b>14.1</b>	<b>10.9</b>	<b>10.4</b>	<b>9.4</b>	<b>8.7</b>
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.





## APPENDIX A: FINANCIAL STATEMENTS

The financial statements consist of an operating statement, including other economic flows, a balance sheet, and a cash flow statement for the Australian Government general government sector (GGS).

The Charter requires that the PEFO be based on external reporting standards and that departures from applicable external reporting standards be identified.

The external standards used for reporting purposes are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2015* (cat. no. 5514.0), which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and
- the Australian Accounting Standards (AAS) issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards as adopted in Australia and the public sector specific standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The financial statements have been prepared on the same basis as the budget papers. The statements reflect the Government's accounting policy that the ABS GFS remains the basis of budget accounting policy, except where the Government applies the AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

Fiscal reporting focuses on the GGS. The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS, all material transactions and balances between entities within the GGS have been eliminated.

The Government's key fiscal aggregates are based on the ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and the derivation of the underlying cash balance and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates, the Uniform Presentation Framework requires disclosure of net debt and net financial liabilities.

## **DEPARTURES FROM EXTERNAL REPORTING STANDARDS**

The Charter requires that departures from applicable external reporting standards be identified. The major differences between AAS and the ABS GFS treatments of transactions are outlined in the below table.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements. Differences from the AAS measurement of items outlined above and reconciliation have not been included as they would effectively create different measures of the same aggregate.

Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, 2015 (cat. no. 5514.0).

**Major differences between AAS and the ABS GFS**

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Circulating coins — seigniorage	The profit between the cost and sale of circulating coins (seigniorage) is treated as revenue.	Circulating coins is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Valuation of loans	Changes in the valuation of loans are treated as a revenue or an expense.  In some circumstances recognition as a revenue or an expense is delayed until the loan ends or is transferred.	Changes in the valuation of loans (excluding mutually agreed write-downs) are treated as an other economic flow.	ABS GFS
Concessional loans	Concessional elements are treated as an expense on initial recognition and unwound over the loan term.	Concessional elements are treated as an other economic flow.	AAS
Investments in other public sector entities	Valued at fair value in the balance sheet as long as it can be reliably measured, otherwise net assets is permissible.	Unlisted entities valued based on their net assets in the balance sheet.	AAS
Provision for restoration, decommissioning and make-good	Capitalised when the asset is acquired.	Capitalised when make-good activity takes place.	AAS
Renewable Energy Certificates (RECs)	The issuance and registration of RECs is considered to be an administrative function and does not result in the recognition of assets or liabilities and, consequently, no revenue or expenses are recognised.	The issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.	AAS
Dividends paid by public corporations	Treated as an equity distribution. Equity distributions are treated as a distribution of profits, as opposed to an expense.	Dividends are treated as an expense.	ABS GFS
Dividends paid by the Reserve Bank of Australia	Dividends are recognised in the year profit was earned.	Dividends are recognised when the Treasurer makes a determination.	AAS
National Disability Insurance Scheme (NDIS) revenue	Funding contributions by the state and territory governments to NDIS are treated as sales of goods and services revenue.  In-kind disability services provided by the state and territory governments are treated as other revenue.	Funding contributions by the state and territory governments to NDIS are treated as grants revenue.  In-kind disability services provided by the state and territory governments are treated as sales of goods and services revenue.	AAS

**Major differences between AAS and the ABS GFS (continued)**

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
<b>Classification difference</b>			
Prepayments	Treated as a non-financial asset.	Treated as a financial asset.	ABS GFS
Spectrum sales	Recognise non-financial asset sales for fiscal balance when payment is made and the licences take effect, which may be after the auction of licences, as this is regarded as the point control is transferred. Recognise cash at the time of receipt.	Recognise non-financial asset sales for fiscal balance at time of auction as this is regarded as the point at which control is transferred. Recognise cash at the time of receipt.	AAS

**Table A1: Australian Government general government sector operating statement**

	Estimates			Projections	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
<b>Revenue</b>					
Taxation revenue	459,085	476,596	496,734	525,620	540,100
Sales of goods and services	13,455	15,758	16,921	17,448	18,051
Interest income	4,837	6,009	6,796	7,181	7,606
Dividend income	7,718	6,112	5,815	6,597	6,903
Other	10,701	9,288	8,005	7,862	7,822
<b>Total revenue</b>	<b>495,796</b>	<b>513,762</b>	<b>534,272</b>	<b>564,708</b>	<b>580,482</b>
<b>Expenses</b>					
Gross operating expenses					
Wages and salaries(a)	20,693	21,348	21,344	21,724	22,148
Superannuation	9,043	5,907	5,921	5,995	6,007
Depreciation and amortisation	8,742	8,505	8,906	9,074	9,441
Supply of goods and services	117,711	125,566	130,021	135,615	142,065
Other operating expenses(a)	6,693	6,873	6,785	6,944	7,007
<i>Total gross operating expenses</i>	<i>162,883</i>	<i>168,199</i>	<i>172,977</i>	<i>179,352</i>	<i>186,668</i>
Superannuation interest expense	9,447	11,127	11,466	11,797	12,122
Interest expenses	18,375	19,264	18,857	17,948	16,994
Current transfers					
Current grants	148,852	150,409	155,843	161,666	168,312
Subsidy expenses	11,367	12,661	13,097	13,673	14,326
Personal benefits	125,316	128,972	133,211	139,880	148,812
<i>Total current transfers</i>	<i>285,535</i>	<i>292,041</i>	<i>302,151</i>	<i>315,219</i>	<i>331,450</i>
Capital transfers					
Mutually agreed write-downs	1,317	1,368	1,458	1,549	1,681
Other capital grants	9,880	8,874	9,198	10,051	10,959
<i>Total capital transfers</i>	<i>11,197</i>	<i>10,241</i>	<i>10,656</i>	<i>11,599</i>	<i>12,640</i>
<b>Total expenses</b>	<b>487,436</b>	<b>500,874</b>	<b>516,108</b>	<b>535,916</b>	<b>559,875</b>
<b>Net operating balance</b>	<b>8,360</b>	<b>12,889</b>	<b>18,164</b>	<b>28,792</b>	<b>20,607</b>
<b>Other economic flows – included in operating result</b>					
Net write-downs of assets (including bad and doubtful debts)	-8,049	-7,996	-8,134	-8,412	-8,495
Assets recognised for the first time	189	190	191	192	192
Actuarial revaluations	30	54	48	38	29
Net foreign exchange gains	-208	61	0	312	325
Net swap interest received	-356	0	0	0	0
Market valuation of debt	-21,460	5,040	4,099	3,268	3,035
Other gains/(losses)	2,584	3,090	3,268	3,827	3,904
<b>Total other economic flows – included in operating result</b>	<b>-27,269</b>	<b>439</b>	<b>-527</b>	<b>-775</b>	<b>-1,010</b>
<b>Operating Result(b)</b>	<b>-18,909</b>	<b>13,327</b>	<b>17,636</b>	<b>28,017</b>	<b>19,597</b>

**Table A1: Australian Government general government sector operating statement (continued)**

	Estimates			Projections	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
<b>Non-owner movements in equity</b>					
Revaluation of equity investments	-3,499	-6,017	-4	0	0
Actuarial revaluations	1,441	262	297	119	97
Other economic revaluations	25	-10	37	28	39
<b>Total other economic flows - included in equity</b>	<b>-2,033</b>	<b>-5,765</b>	<b>330</b>	<b>148</b>	<b>136</b>
<b>Comprehensive result -</b>					
<b>Total change in net worth</b>	<b>-20,942</b>	<b>7,563</b>	<b>17,966</b>	<b>28,165</b>	<b>19,733</b>
<b>Net operating balance</b>	<b>8,360</b>	<b>12,889</b>	<b>18,164</b>	<b>28,792</b>	<b>20,607</b>
<b>Net acquisition of non-financial assets</b>					
Purchases of non-financial assets	15,306	14,425	16,980	18,927	20,375
<i>less</i> Sales of non-financial assets	194	1,171	379	199	185
<i>less</i> Depreciation	8,742	8,505	8,906	9,074	9,441
<i>plus</i> Change in inventories	118	3	32	60	31
<i>plus</i> Other movements in non-financial assets	2	-3	0	0	0
<b>Total net acquisition of non-financial assets</b>	<b>6,490</b>	<b>4,749</b>	<b>7,727</b>	<b>9,715</b>	<b>10,780</b>
<b>Fiscal balance</b>					
<b>(Net lending/borrowing)(c)</b>	<b>1,870</b>	<b>8,140</b>	<b>10,437</b>	<b>19,077</b>	<b>9,827</b>

(a) Consistent with the ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.

(b) Operating result under AAS.

(c) The term fiscal balance is not used by the ABS.

**Table A2: Australian Government general government sector balance sheet**

	Estimates			Projections	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
<b>Assets</b>					
Financial assets					
Cash and deposits	7,471	5,244	5,361	5,110	6,341
Advances paid	71,008	83,305	89,471	93,950	95,291
Investments, loans and placements	175,216	188,358	196,703	211,727	211,594
Other receivables	55,700	57,430	59,053	61,964	63,904
Equity investments					
Investments in other public sector entities	52,907	48,324	50,859	54,109	57,818
Equity accounted investments	3,405	3,562	3,654	3,752	3,846
Investments - shares	66,000	70,034	72,506	76,733	81,464
<i>Total financial assets</i>	<i>431,706</i>	<i>456,257</i>	<i>477,607</i>	<i>507,345</i>	<i>520,258</i>
Non-financial assets					
Land	11,586	11,484	11,441	11,342	11,262
Buildings	27,072	27,589	28,724	29,661	30,664
Plant, equipment and infrastructure	81,742	86,178	92,293	100,260	108,933
Inventories	8,397	8,045	7,730	7,444	7,129
Intangibles	9,039	9,353	9,346	9,302	9,417
Investment properties	193	193	193	193	193
Biological assets	20	14	11	11	11
Heritage and cultural assets	11,604	11,594	11,582	11,570	11,560
Assets held for sale	183	179	179	179	180
Other non-financial assets	34	31	31	31	31
<i>Total non-financial assets</i>	<i>149,869</i>	<i>154,660</i>	<i>161,532</i>	<i>169,993</i>	<i>179,381</i>
<b>Total assets</b>	<b>581,575</b>	<b>610,917</b>	<b>639,139</b>	<b>677,338</b>	<b>699,638</b>
<b>Liabilities</b>					
Interest bearing liabilities					
Deposits held	381	381	381	381	381
Government securities	608,637	619,463	622,539	625,368	620,508
Loans	16,742	16,731	16,779	16,990	17,162
Other borrowing	1,499	1,466	1,438	1,393	1,342
<i>Total interest bearing liabilities</i>	<i>627,260</i>	<i>638,042</i>	<i>641,138</i>	<i>644,132</i>	<i>639,393</i>

**Table A2: Australian Government general government sector balance sheet (continued)**

	Estimates			Projections	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
Provisions and payables					
Superannuation liability	223,720	230,748	237,683	244,417	251,141
Other employee liabilities	20,166	20,591	21,003	21,449	21,903
Suppliers payables	6,027	6,809	7,090	7,470	7,828
Personal benefits payables	3,389	3,746	3,538	3,530	3,530
Subsidies payables	519	1,210	1,268	1,303	1,296
Grants payables	3,539	3,927	4,027	3,717	3,460
Other payables	2,316	2,202	2,124	2,048	1,942
Provisions	35,622	37,060	36,721	36,558	36,699
<i>Total provisions and payables</i>	<i>295,297</i>	<i>306,294</i>	<i>313,453</i>	<i>320,493</i>	<i>327,799</i>
<b>Total liabilities</b>	<b>922,557</b>	<b>944,336</b>	<b>954,591</b>	<b>964,625</b>	<b>967,192</b>
<b>Net worth(a)</b>	<b>-340,981</b>	<b>-333,419</b>	<b>-315,452</b>	<b>-287,287</b>	<b>-267,554</b>
<i>Net financial worth(b)</i>	<i>-490,851</i>	<i>-488,079</i>	<i>-476,984</i>	<i>-457,281</i>	<i>-446,935</i>
<i>Net financial liabilities(c)</i>	<i>543,757</i>	<i>536,403</i>	<i>527,843</i>	<i>511,390</i>	<i>504,753</i>
<i>Net debt(d)</i>	<i>373,565</i>	<i>361,135</i>	<i>349,603</i>	<i>333,346</i>	<i>326,167</i>

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

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

(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.

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



**Table A3: Australian Government general government sector cash flow statement<sup>(a)</sup>**

	Estimates			Projections	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
<b>Cash receipts from operating activities</b>					
Taxes received	448,821	466,397	486,372	514,320	528,691
Receipts from sales of goods and services	13,468	15,747	16,997	17,551	17,991
Interest receipts	4,412	5,701	6,375	6,731	6,897
Dividends and income tax equivalents	7,175	6,165	5,683	6,153	6,984
Other receipts	10,643	9,895	6,572	6,066	6,125
<b>Total operating receipts</b>	<b>484,518</b>	<b>503,905</b>	<b>521,998</b>	<b>550,821</b>	<b>566,688</b>
<b>Cash payments for operating activities</b>					
Payments for employees	-29,603	-31,101	-31,463	-32,562	-33,375
Payments for goods and services	-116,834	-123,276	-127,747	-133,410	-139,681
Grants and subsidies paid	-170,614	-171,776	-177,492	-185,214	-193,106
Interest paid	-18,491	-16,638	-16,764	-16,090	-15,571
Personal benefit payments	-126,047	-129,783	-134,782	-140,879	-149,554
Other payments	-6,358	-6,493	-6,374	-6,520	-6,562
<b>Total operating payments</b>	<b>-467,946</b>	<b>-479,067</b>	<b>-494,622</b>	<b>-514,676</b>	<b>-537,849</b>
<b>Net cash flows from operating activities</b>	<b>16,572</b>	<b>24,838</b>	<b>27,376</b>	<b>36,144</b>	<b>28,840</b>
<b>Cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	647	1,615	331	201	186
Purchases of non-financial assets	-14,881	-14,261	-16,704	-18,553	-19,861
<b>Net cash flows from investments in non-financial assets</b>	<b>-14,234</b>	<b>-12,647</b>	<b>-16,373</b>	<b>-18,352</b>	<b>-19,675</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>-15,149</b>	<b>-16,584</b>	<b>-11,546</b>	<b>-9,875</b>	<b>-6,639</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>1,979</b>	<b>-12,248</b>	<b>-5,683</b>	<b>-13,521</b>	<b>1,631</b>
<b>Cash receipts from financing activities</b>					
Borrowing	83,567	169,891	253,248	194,239	125,400
Other financing	1,215	22	21	21	21
<b>Total cash receipts from financing activities</b>	<b>84,782</b>	<b>169,912</b>	<b>253,268</b>	<b>194,260</b>	<b>125,421</b>
<b>Cash payments for financing activities</b>					
Borrowing	-69,166	-152,946	-243,809	-185,937	-125,887
Other financing	-4,093	-2,552	-3,117	-2,970	-2,459
<b>Total cash payments for financing activities</b>	<b>-73,259</b>	<b>-155,498</b>	<b>-246,927</b>	<b>-188,907</b>	<b>-128,346</b>
<b>Net cash flows from financing activities</b>	<b>11,523</b>	<b>14,414</b>	<b>6,342</b>	<b>5,353</b>	<b>-2,926</b>
<b>Net increase/(decrease) in cash held</b>	<b>691</b>	<b>-2,227</b>	<b>117</b>	<b>-251</b>	<b>1,232</b>

**Table A3: Australian Government general government sector cash flow statement<sup>(a)</sup>  
(continued)**

	Estimates			Projections	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
<b>GFS cash surplus(+)/deficit(-)(b)</b>	<b>2,338</b>	<b>12,191</b>	<b>11,003</b>	<b>17,792</b>	<b>9,165</b>
<i>less</i> Finance leases and similar arrangements(c)	0	0	0	0	0
<i>less</i> Net Future Fund earnings(d)	6,592	5,140	na	na	na
<b>Equals underlying cash balance(e)</b>	<b>-4,254</b>	<b>7,051</b>	<b>11,003</b>	<b>17,792</b>	<b>9,165</b>
<i>plus</i> Net cash flows from investments in financial assets for policy purposes	-15,149	-16,584	-11,546	-9,875	-6,639
<i>plus</i> Net Future Fund earnings(d)	6,592	5,140	na	na	na
<b>Equals headline cash balance</b>	<b>-12,811</b>	<b>-4,393</b>	<b>-542</b>	<b>7,917</b>	<b>2,526</b>
<i>Memorandum:</i>					
<i>Net Future Fund earnings(d)</i>	6,592	5,140	5,207	5,563	6,249

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.

(b) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.

(c) The acquisition of assets under finance leases worsens the underlying cash balance. The disposal of assets previously held under finance leases improves the underlying cash balance.

(d) 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.

(e) The term underlying cash balance is not used by the ABS.

## APPENDIX B: POLICY DECISIONS SINCE THE 2019-20 BUDGET

**Table B1: Revenue measures since the 2019-20 Budget<sup>(a)</sup>**

	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
<b>AGRICULTURE AND WATER RESOURCES</b>					
<i>Regional Investment Corporation</i>					
Agristarter Loan – assisting people to buy their first farm and supporting succession arrangements within farming families (b)(c)	-	-	-	-	-
<b>Portfolio total</b>	-	-	-	-	-
<b>EDUCATION AND TRAINING</b>					
<i>Department of Education and Training</i>					
FEE-HELP – increase in loan limit for aviation courses (b)	-	0.2	0.6	1.2	2.0
<b>Portfolio total</b>	-	<b>0.2</b>	<b>0.6</b>	<b>1.2</b>	<b>2.0</b>
<b>HEALTH</b>					
<i>Department of Health</i>					
Improving Access to Medicines – Immunisation and deed management fees – change commencement date (b)	-	-2.6	-	-	-
<b>Portfolio total</b>	-	<b>-2.6</b>	-	-	-
<b>Total Impact of revenue measures (d)</b>	-	<b>-2.4</b>	<b>0.6</b>	<b>1.2</b>	<b>2.0</b>

\* The nature of the measure is such that a reliable estimate cannot be provided.

.. Not zero, but rounded to zero.

- Nil.

nfp not for publication.

(a) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain in revenue.

(b) These measures can also be found in the expense measures summary table.

(c) The new loans provided in this measure will be funded from within the Regional Investment Corporation's existing appropriation.

(d) Measures may not add due to rounding.

**Table B2: Expense measures since the 2019-20 Budget<sup>(a)</sup>**

	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
<b>AGRICULTURE AND WATER RESOURCES</b>					
<i>Department of Agriculture and Water Resources</i>					
Energy Assistance Payment – extension to additional payments	0.4	..	-	-	-
Extending the scope of the FarmHub program (c)	-	-	-	-	-
Response to Fish Deaths in the Murray Darling Basin (d)	-	-	-	-	-
<i>Regional Investment Corporation</i>					
Agristarter Loan – assisting people to buy their first farm and supporting succession arrangements within farming families (b)(e)	-	-	-	-	-
<b>Portfolio total</b>	<b>0.4</b>	<b>..</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EDUCATION AND TRAINING</b>					
<i>Department of Education and Training</i>					
FEE-HELP – increase in loan limit for aviation courses (b)	-	0.1	0.3	0.6	0.8
<b>Portfolio total</b>	<b>-</b>	<b>0.1</b>	<b>0.3</b>	<b>0.6</b>	<b>0.8</b>
<b>HEALTH</b>					
<i>Department of Health</i>					
Improving Access to Medicines – Immunisation and deed management fees – change commencement date (b)	-	-2.6	-	-	-
Australian Government Support for the 2027 Rugby World Cup (f)	-	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-2.6</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>HOME AFFAIRS</b>					
<i>Department of Home Affairs</i>					
Tasmanian Bushfires Recovery Package (m)	-	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES</b>					
<i>Department of Infrastructure, Regional Development and Cities</i>					
Community Development Grants – additional projects (g)	-	-	-	-	-
National Water Infrastructure Development Fund – Granite Belt Irrigation Project (h)	-	-	-	-	-
Infrastructure Investment Program – Western Australia – Karel Avenue Bridge reallocation (i)	-	-	-	-	-
Regional Growth Fund – funding reallocation (j)	-	-	-	-	-
Urban Congestion Fund – priority projects (k)	-	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Table B2: Expense measures since the 2019-20 Budget<sup>(a)</sup> (continued)**

	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
<b>JOBS AND SMALL BUSINESS</b>					
<i>Department of Jobs and Small Business</i>					
Cease the Seasonal Worker Programme	-	-	-	-	-
Northern Australia Tourism Pilot	-	-	-	-	-
<b>Portfolio total</b>	-	-	-	-	-
<b>SOCIAL SERVICES</b>					
<i>Department of Human Services</i>					
Cashless Debit Card – amendments (l)	-	0.4	..	-	-
Energy Assistance Payment – extension to additional payments	1.8	..	-	-	-
<i>Department of Social Services</i>					
Cashless Debit Card – amendments (l)	-	1.7	0.7	-	-
Energy Assistance Payment – extension to additional payments	85.3	0.1	-	-	-
<b>Portfolio Total</b>	<b>87.1</b>	<b>2.2</b>	<b>0.7</b>	-	-
<b>TREASURY</b>					
<i>Department of the Treasury</i>					
National Water Infrastructure Development Fund – Granite Belt Irrigation Project (h)(m)	-	-	-	-	-
Infrastructure Investment Program – Western Australia – Karel Avenue Bridge reallocation (i)(m)	-	-	-	-	-
Tasmanian Bushfires Recovery Package (m)	5.0	-	-	-	-
Urban Congestion Fund – priority projects (k)(m)	-	-	-	-	-
<b>Portfolio Total</b>	<b>5.0</b>	-	-	-	-
<b>VETERANS' AFFAIRS</b>					
<i>Department of Veterans' Affairs</i>					
Energy Assistance Payment – extension to additional payments	..	-	-	-	-
<b>Portfolio Total</b>	..	-	-	-	-
<b>Total Impact of expense measures (n)</b>	<b>92.6</b>	<b>-0.3</b>	<b>1.1</b>	<b>0.6</b>	<b>0.8</b>

\* The nature of the measure is such that a reliable estimate cannot be provided.

.. Not zero, but rounded to zero.

- Nil.

nfp not for publication.

(a) A minus sign before an estimate indicates a reduction in expenses, no sign before an estimate indicates increased expenses.

(b) These measures can also be found in the revenue measures summary table.

(c) This measure will be funded from within the existing resources of the Department of Agriculture and Water Resources and includes funding of \$0.4 million in 2019-20.

(d) This measure will be funded from uncontracted funds in the Sustainable Rural and Water Use and Infrastructure Program and includes funding of \$136.2 million over five years from 2018-19.

(e) The new loans provided in this measure will be funded from within the Regional Investment Corporation's existing appropriation.

(f) This measure includes funding of \$1.0 million in 2019-20. This funding was included as a 'decision taken but not yet announced' in the 2019-20 Budget.

**Table B2: Expense measures since the 2019-20 Budget<sup>(a)</sup> (continued)**

- (g) This measure commits funding of \$94.5 million in 2019-20 for additional projects from unallocated funding in the Community Development Grants Programme, including \$18.0 million for Glendorf Off-stream; \$15.0 million for Kellyville Park Centre of Excellence and Community Facility; \$10.0 million for Baranduda Fields Sporting Complex Upgrade; \$10.0 million towards the PCYC NSW Regional Sport and Youth Centre; and \$10.0 million for Lindenow Valley Water Security Scheme. It also includes additional funding for the Community Development Grants Programme of \$17.3 million over three years from 2020-21, this additional funding was included as a 'decision taken but not yet announced' in the 2019-20 Budget.
- (h) This measure commits funding of \$0.5 million in 2019-20 from within the National Water Infrastructure Development Fund.
- (i) This measure commits funding of \$6.7 million in 2018-19 from within the Infrastructure Investment Program.
- (j) This measure will reallocate \$10.0 million from not proceeding with funding for the Construction of Port Spencer Deep Sea Wharf project and instead provide \$10.0 million towards the construction of the Coffs Harbour Airport Enterprise Park.
- (k) This measure commits funding of \$895.1 million over five years from 2019-20 for additional projects from unallocated funding in the Urban Congestion Fund, including: \$506.1 million to address congestion hot spots in New South Wales, Victoria, Queensland and Western Australia, and \$389.0 million for car park upgrades in New South Wales and Victoria.
- (l) This measure includes total funding of \$6.9 million in 2019-20 and \$7.1 million in 2020-21. Partial funding for this measure was included as a 'decision taken but not yet announced' in the 2019-20 Budget.
- (m) Funding is provided to the Treasury to provide the payments to the states and territories.
- (n) Measures may not add due to rounding.

## **APPENDIX C: STATEMENT OF RISKS**

### **OVERVIEW**

Full details and explanations of fiscal risks, contingent liabilities and assets, and Government loans are provided in *2019-20 Budget Statement 8: Statement of Risks*. 2019-20 Budget Statement 8 includes all risks that meet a materiality threshold – a possible impact on the forward estimates greater than \$20 million in any one year, or \$50 million over the forward estimates period.

Consistent with the Charter, the 2019 PEFO only updates (where necessary) those fiscal risks, contingent liabilities and assets, and Government loans that have arisen or materially changed since the 2019-20 Budget, and other risks that may have an effect on the fiscal outlook.

There have been no material updates to fiscal risks, contingent liabilities and assets, or Government loans as disclosed in 2019-20 Budget Statement 8 – the disclosure of risks in the Budget papers still accurately reflects the risks to the fiscal outlook.

### **Fiscal risks**

Fiscal risks comprise general developments or specific events that may affect the fiscal outlook. Some developments or events raise the possibility of a fiscal impact. In other cases, the likelihood of a fiscal impact may be reasonably certain, but will not be included in the forward estimates because the timing or magnitude is not known.

The revenue and expense estimates and projections published in the 2019 PEFO are based on a range of economic and other parameters, consistent with the 2019-20 Budget. If the economic outlook were to differ significantly from that presented in the PEFO, the revenue and expense estimates and projections would also change.

The economic and fiscal estimates and projections are based on the best professional judgment of the Treasury and the Department of Finance, reflecting all known information at the time of the issue of the election writs. To the extent that unanticipated changes in economic conditions occur, their impact will flow through to government expense and revenue forecasts. For example, over the past year stronger than expected commodity prices resulted in stronger forecasts for company tax revenue in the 2019-20 Budget.

Expense outcomes can also differ from forecasts for a number of reasons. Demand-driven programs, such as payments to individuals for social welfare, form a large proportion of government expenditure. Forecasts of payments associated with demand-driven government programs, such as payments related to Child Care programs and the National Disability Insurance Scheme, vary depending on the number of expected participants or beneficiaries. Forecasts of payments for a number of other government programs also depend on forecasts of economic conditions. For example, higher than forecast unemployment levels will mean that expenditure for related social services payments, including allowances, will also be higher.

### **Unlegislated measures**

In line with normal practice, the forward estimates in the PEFO, as was the case at the 2019-20 Budget, include the impact of all policy decisions, including those that remain unlegislated. The estimated net impact over the four years to 2022-23 of all unlegislated policy decisions, announced prior to the PEFO and after taking account of parameter changes since the original announcement, is around negative \$1.4 billion in underlying cash terms. This comprises:

- policy decisions made prior to the 2019-20 Budget that require legislation to be implemented, which have a net positive impact on the underlying cash balance of around \$5.4 billion over the four years to 2022-23; and
- new policy decisions announced in the 2019-20 Budget that require legislation to be implemented, which have a net negative impact on the underlying cash balance of around \$6.9 billion over the four years to 2022-23. This includes policy decisions with an estimated net negative impact of \$1.4 billion that require annual appropriation bills but do not require any other enabling legislation to be implemented.

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. Consistent with the 2019-20 Budget, the next possible commencement date is assumed to be no earlier than 1 July 2019. 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.

There are a number of tax measures included in the 2019-20 Budget that take effect on or before 1 July 2019. Many of these measures can be legislated at a later time within 2019-20 without materially affecting the estimates. However, the *immediate relief to low- and middle-income earners* component of the *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* measure requires the relevant legislation to be passed before the increase to the low and middle income tax offset (LMITO) can be provided for the 2018-19 financial year. If not legislated prior to 1 July 2019, the revenue cost of this measure would need to be reassessed.



## **CONTINGENT LIABILITIES AND ASSETS**

There have been no material updates to the contingent liabilities and assets as disclosed in 2019-20 Budget Statement 8.

There are a range of factors that may influence the actual budget outcome in future years, including matters that are not included in the fiscal forecasts because of uncertainty about their timing, magnitude or likelihood, and the realisation of contingent liabilities or assets.

As outlined in the 2019-20 Budget, a large number of the contingent liabilities reflect indemnities, including those relating to the Department of Defence, the Future Fund Management Agency and Future Fund Board of Guardians, and the Reserve Bank of Australia.

The fiscal position is also subject to a number of guarantees issued by the Australian Government, such as those relating to guarantee schemes for the banking and financial sector, payments by the Export Finance and Insurance Corporation and the superannuation liabilities of the Commonwealth Bank prior to its sale to the private sector.

Other significant contingent liabilities relate to uncalled capital subscriptions and credit facilities to international financial institutions and legal cases concerning the Australian Government.

## **GOVERNMENT LOANS**

There have been no material updates to Government loans as disclosed in 2019-20 Budget Statement 8.

Consistent with the 2019-20 Budget, the budget estimates include a number of loans, which all contain some element of credit risk that they will not be repaid in full, although in most cases this risk is small.