

Beyond the budget 2021-22

Independent analysis of fiscal sustainability and the budget



Parliamentary Budget Office

- This report shows that the Commonwealth Government's fiscal position is projected to improve over the decade, but the impact of the COVID-19 pandemic remains profound and uncertain.
- The challenge of reducing debt from post-war record levels will depend on factors such as the performance of the economy, interest rates and successful budget repair. *Beyond the budget* explores multiple scenarios for longer-term government debt, based on various assumptions for these factors, rather than a single case.
- Starting at around 50 per cent of GDP in 2031-32, gross debt is projected to fall steadily to the early 2060s under all but our most unlikely worst scenarios (Figure 1). Future governments will need to act to ensure sustainability, but if they act consistently and early, they do not need to consolidate more rapidly than after previous downturns. These results can be obtained without having to achieve a balanced budget and they do not require interest rates to remain at their current low levels. They rely primarily on an economy growing faster than interest rates and deficits.
- The PBO projects net debt to fall slightly from the budget forecast of a peak of 40.9 per cent of GDP in 2024-25 to reach 37.7 per cent by 2031-32 (Figure 2), reflecting decreasing budget deficits as receipts continue to recover. While interest rates are assumed to increase from their historically low levels, interest payments are likely to remain manageable.
- Underlying cash deficits persist over the decade but are projected to fall from \$161.0 billion (7.8 per cent of GDP) in 2020-21 to \$51.6 billion (1.5 per cent of GDP) in 2031-32.
- Our modelling projects total payments to increase over the medium term relative to last year's projections, and to more than offset upwards revision in receipts by 2030-31 (Figure 3).
- Some key policy drivers of the projected budget balance over the medium-term period include personal income tax and the National Disability Insurance Scheme (NDIS). Over the medium term, the largest increases in payments as a share of GDP are projected for the NDIS, aged care and defence (Figure 4).
- Personal income tax receipts are projected to continue growing as a share of GDP over the medium term due to bracket creep, rising to 11.9 per cent of GDP in 2031-32 (Figure 5).
- The full report, plus all underlying data, are available in the [Research reports](#) section of the PBO website.

Figure 1: Gross debt to GDP improves across a range of scenarios

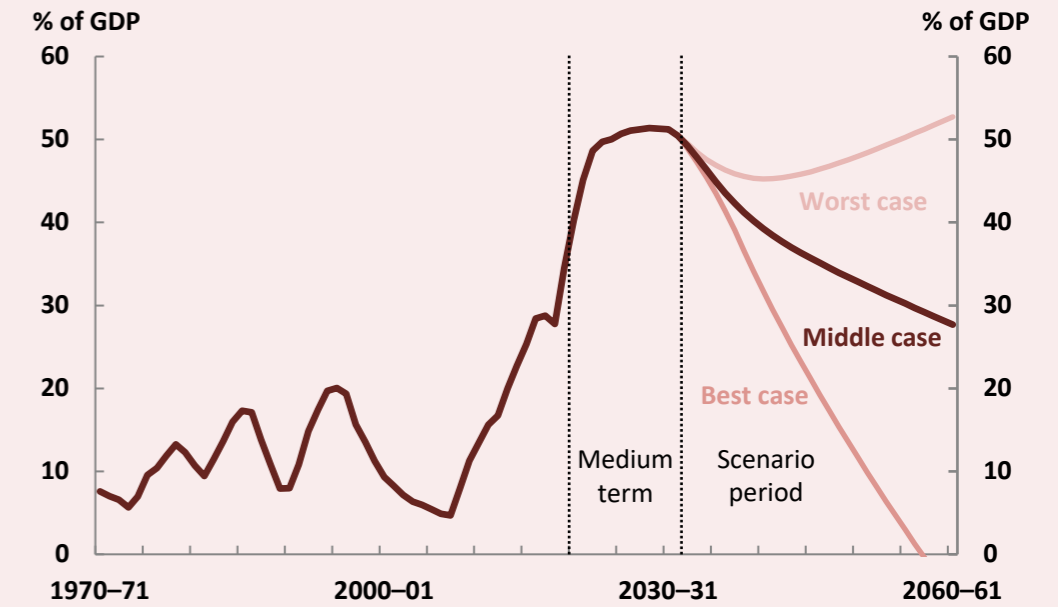


Figure 2: Net debt is projected to fall slightly from the mid 2020s ...

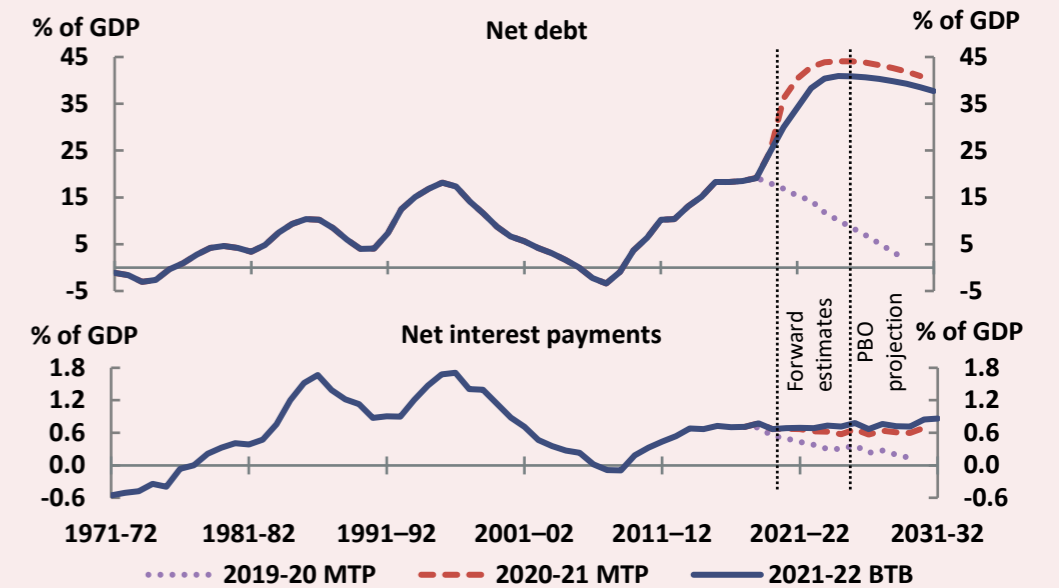


Figure 3: ... while structural increases in payments are projected to more than offset improvements to receipts

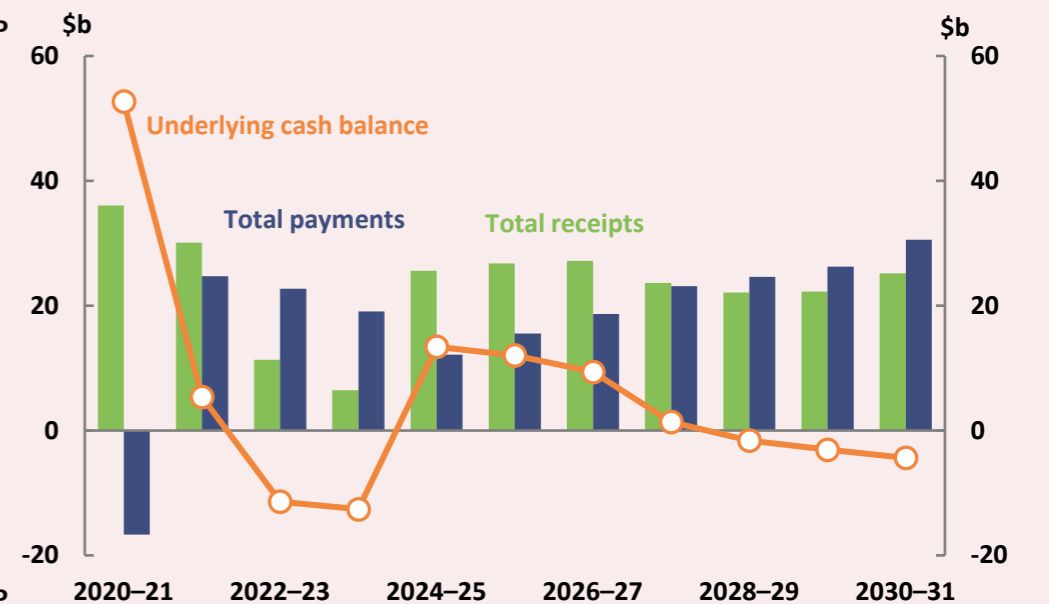


Figure 5: Personal income tax is projected to grow over the medium term primarily due to bracket creep

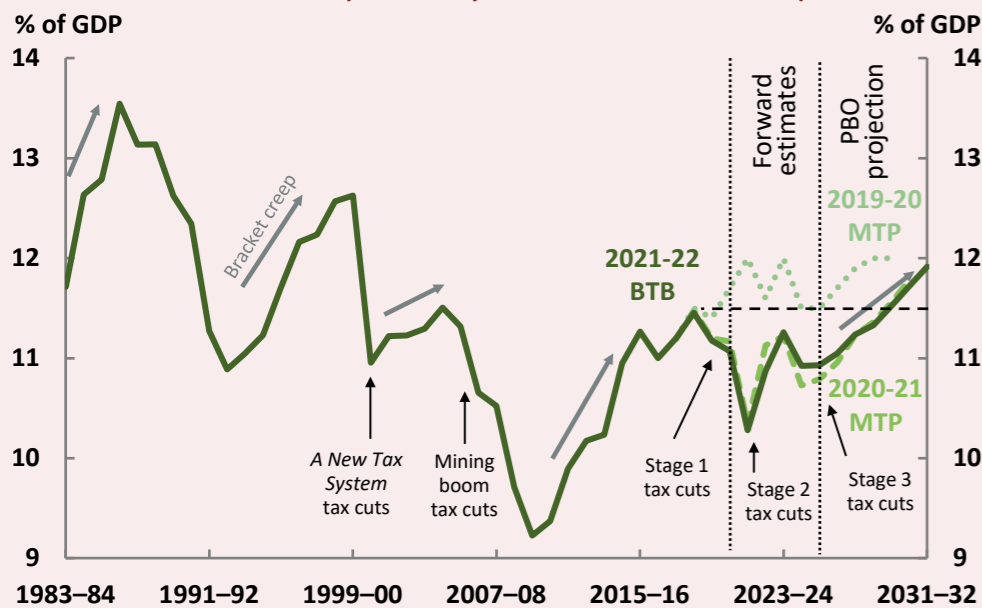


Figure 4: Payments grow at different rates as a share of GDP

