Parliamentary Budget Office

4 March 2021

2020-21 National fiscal outlook

COVID-19 spending comparable to half a year's national government revenue

In response to the COVID-19 pandemic, Commonwealth and state and territory ('state') governments have ramped up their spending to soften the associated economic shock. Nationally, announced COVID-19 response and recovery packages are expected to total $327 billion for the five-year period 2019-20 to 2023-24. This is half of the total revenue raised by the Commonwealth and state governments in the pre-COVID-19 year of 2018-19.

Since the start of the pandemic, the combined bottom line of governments – as measured by national net operating balance[1] – has significantly worsened. The national net operating balance for the four years from 2019-20 to 2022-23 has deteriorated by $671 billion compared to the 2019-20 outlook. Of this change, the Commonwealth budget deteriorated by $538 billion, and aggregated state and local government budgets deteriorated by $132 billion. In the 2019-20 outlook, the national net operating balance was forecast to be a surplus of 1.7 per cent of GDP ($35 billion) in 2020-21 – this has been revised to a deficit of 11.1 per cent of GDP ($222 billion) for the same year. By comparison, the peak deficit during the Global Financial Crisis was 3.2 per cent of GDP ($42 billion) in 2009-10. The deficit in the national net operating balance in 2020-21 is driven by an increase in expenses and a decrease in revenue across Commonwealth and state governments.

National net debt is forecast to triple pre-COVID-19 levels

The cumulative deficits across the Commonwealth and state governments will see national net debt rise from $393 billion in 2018-19 to $1,298 billion in 2023-24. Falls in interest rates mean public debt interest payments to service the debt are expected to remain flat, at around 1.3 per cent of GDP between 2018-19 and 2023-24.

The composition of national net debt is expected to change over the next few years. The state share of national net debt is forecast to increase from its average of 13 per cent since the Global Financial Crisis (2009-10 to 2018-19) to around 29 per cent in 2023-24.

National net capital investment is projected to increase

National net capital investment (excluding government businesses) was revised upwards by $45 billion for the period 2019-20 to 2022-23. State governments contributed around $39 billion of this revision, including through new capital investment and bringing forward infrastructure investment in response to COVID-19.

The national budget balance is forecast to substantially recover by 2023-24

While the economic shock of COVID-19 is profound, the national net operating balance is forecast to improve after 2021-22, with a more modest deficit of around 2.2 per cent of GDP ($49 billion) expected in 2023-24.

A complementary product, the 2020-21 National fiscal outlook At a Glance, provides a graphical snapshot of the Commonwealth, state and territory budgets in three charts, plus national aggregates. Detailed discussion of Commonwealth trends and risks is contained in the PBO's *2020-21 Medium-term fiscal projections* report.

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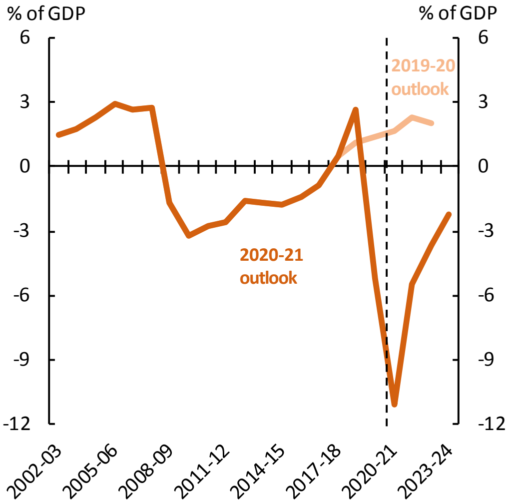
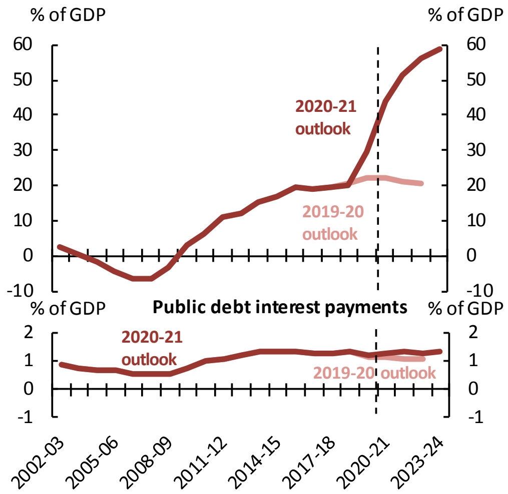
[1] The net operating balance is equal to revenue less expenses, and does not include the purchase and sale of assets. See the PBO's online glossary or this publication's Glossary and Technical Appendix for further definitions of budget terms.

What has changed since the 2019-20 National fiscal outlook?

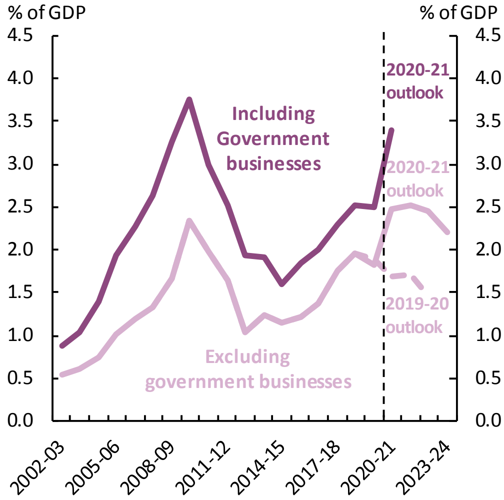
National net operating balance



National net debt and public debt interest payments



National net capital investment



The **national net operating balance** is forecast to deteriorate dramatically, driven by the COVID-19 pandemic and associated policy responses (Box 1).

In 2018-19 (pre-COVID), the national net operating surplus was 2.6 per cent of GDP ($52 billion). The pandemic-induced deficit is expected to peak at 11.1 per cent of GDP ($222 billion) in 2020-21, before improving to a deficit of 2.2 per cent of GDP ($49 billion) in 2023-24, based on governments' assumed rate of economic recovery and the winding back of policy support.

Compared to the 2019-20 outlook, the national net operating balance for the period 2019-20 to 2022-23 has been revised downwards by $671 billion. Revenue decreased by $298 billion, and expenses increased by $373 billion over this period. Policy changes account for 55 per cent of the net operating balance revision between 2020-21 and 2022-23, with the rest driven by non-policy factors, such as revisions to expected GDP growth.[2,3]

National public net debt is forecast to increase from 20 per cent of GDP ($393 billion) in 2018-19, to 59 per cent of GDP ($1,298 billion) in 2023-24.

The increase in national net debt is caused by the cumulative deficits resulting from the COVID-19 pandemic, as well as revaluations of government assets and liabilities, such as Australian Government Securities. A lower bond yield assumption has resulted in an upwards revaluation of the existing stocks of government net debt.[4]

While national net debt has increased, forecast public debt interest payments are forecast to remain around 1.3 per cent of GDP until 2023-24 due to lower interest rates.

National net capital investment (excluding government businesses) was revised upwards $45 billion for the period 2019-20 to 2022-23, changing the outlook from a modest decline over the period to an overall increase.[5] $39 billion of the revision is from state governments, including through bringing forward capital investments in response to COVID-19.

The level of national net capital investment including government businesses (that is, whole of government net capital investment) is set to increase to 3.4 per cent of GDP ($68 billion) in 2020-21.

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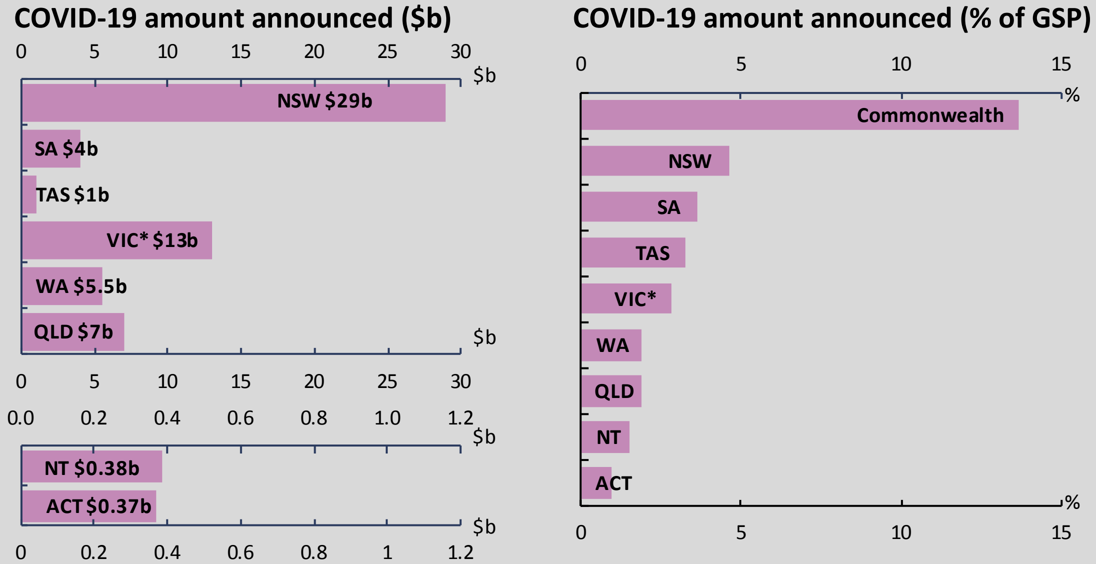
[2] The Western Australian and Queensland budgets did not include policy and non-policy splits.
[3] Further breakdowns of the aggregates between the Commonwealth and states are in the separate technical appendix.
[4] The Commonwealth Government's assumed market yield used in the 2020-21 MYEFO was 0.9 per cent, 1.0 percentage points lower than the assumption of 1.9 per cent used in the 2019-20 Budget.
[5] National net capital investment includes new investments and is adjusted for the disposal and depreciation of assets.

Box 1: National response to COVID-19

The health and economic support packages in Australia in response to the COVID-19 pandemic are of an unprecedented scale. The announced cost across Commonwealth and state governments stands at $327 billion between 2019-20 and 2023-24, or around 17 per cent of Australia's gross domestic product (GDP) in 2018-19 (the last pre-COVID year). The Commonwealth is the major contributor to total spending,[6] with $267 billion of the total $327 billion. By comparison, the Commonwealth's response to the Global Financial Crisis was around $90 billion.[7] The Commonwealth's share of spending is unsurprising given the size of its revenue base and its role in financial transfers. A more meaningful comparison is to instead look at the size of stimulus of different governments compared to each state's gross state product (GSP) for the states and GDP for the Commonwealth.



Note: Figures are as published in the Commonwealth and state budget papers. Amounts shown are those explicitly identified by governments as policy responses to COVID-19, rather than including all policies announced since early 2020. Jurisdictions may differ in the timeframes and items included in their announced COVID-19 responses.
*The 2020-21 Victorian Budget announced that 'more than $13 billion' has been committed for COVID-19 support. The budget announced $29.2 billion in 'output spending' (around 6 per cent of GSP), and $19.8 billion of investments (4 per cent of GSP).

Source: ABS Australian National Accounts: State Accounts, Commonwealth and state budget papers and PBO analysis. See Technical Appendix Table A2 for detailed sources on COVID-19 amounts announced.

The Commonwealth's spending in response to the COVID-19 pandemic is equivalent to 14 per cent of GDP, while the states' combined contributions total $60 billion or around 3 per cent of GDP. The contributions of states vary from the equivalent of 0.9 per cent of their GSP in the Australian Capital Territory to 4.6 per cent in New South Wales, as shown above.

The difference in spending across jurisdictions also partly reflects the differences in borrowing capacity and the size of economic activity. The Commonwealth has a larger revenue base, and therefore has greater borrowing power so is in a stronger position to contribute to the stimulus.

Most of the support is directed to provide immediate relief to individuals, households and businesses through income support or tax concessions in 2020 and 2021. Some longer-term stimulus initiatives are set to run for a few years and phase out in line with the expected economic recovery by 2023-24. These packages are designed to sustain or create jobs and are found across all states. Examples of these include Victoria's economic survival package ($1.7 billion) and New South Wales' Working for NSW Fund ($1 billion).

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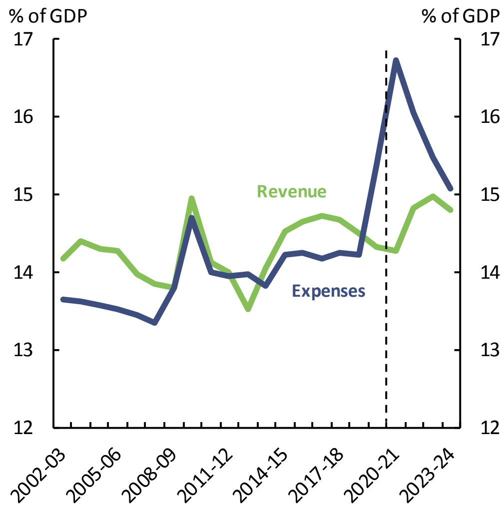
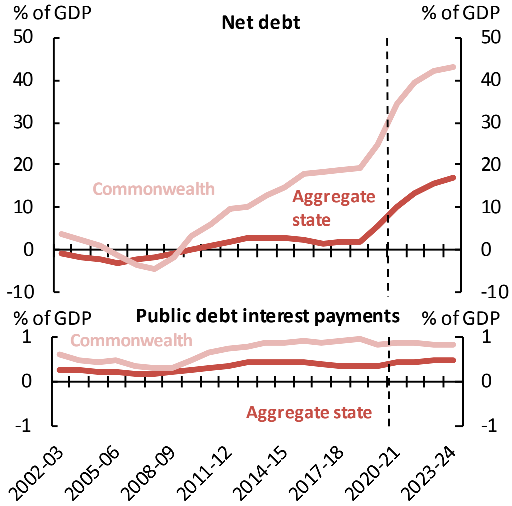
[6] For simplicity, spending in this box also includes tax concessions provided in response to COVID-19.
[7] *Government's economic stimulus initiatives*, https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Completed_inquiries/2008-10/eco_stimulus_09/report/index

State trends[8]

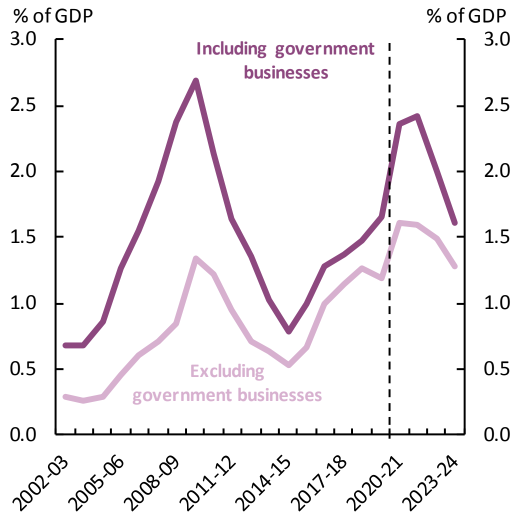
State revenue and expenses



Commonwealth and state net debt and public debt interest payments



State net capital investment



Aggregate state revenue and expenses are forecast to diverge markedly with the pandemic, as expenses increase sharply while revenue declines temporarily. In aggregate, state revenue is forecast to increase slightly from 14.5 per cent of GDP ($283 billion) in 2018-19 to 14.8 per cent of GDP ($328 billion) in 2023-24. Aggregate state expenses are forecast to increase substantially from 14.2 per cent of GDP ($278 billion) in 2018-19, peaking at 16.7 per cent of GDP ($336 billion) in 2020-21 before declining to 15.1 per cent of GDP ($334 billion) in 2023-24.

GDP is now forecast to be lower over the forward estimates period than the 2019-20 outlook. As a result the same dollar value in this outlook will appear larger as a per cent of GDP than in the previous outlook.

There have been large upward revisions in forecast net debt for both the states and the Commonwealth. **Aggregate state net debt** is projected to rise from 1.8 per cent of GDP ($35 billion) in 2018-19 to 16.8 per cent of GDP ($371 billion) in 2023-24, largely reflecting the increase in expenses in response to the COVID-19 pandemic. While state net debt increases significantly, state interest payments increase only modestly, from 0.3 per cent of GDP ($7 billion) in 2018-19 to 0.5 per cent of GDP ($11 billion) in 2023-24.

The composition of national net debt is expected to change over the next few years, with the state share forecast to increase from an average of 13 per cent since the Global Financial Crisis (2009-10 to 2018-19) to almost 29 per cent in 2023-24.

Aggregate state net capital investment (excluding government businesses) is forecast to increase modestly from 1.3 per cent of GDP ($25 billion) in 2018-19 to 1.6 per cent of GDP ($32 billion) in 2020-21. New South Wales and Victoria contribute around three quarters of total state net capital investment on average between 2018-19 and 2023-24. These investments include the NSW Government's $3 billion infrastructure and job acceleration fund, and the Victorian Government's $2.7 billion Building Works package, created in response to COVID-19.

In 2020-21, the Commonwealth Government will provide $10.4 billion funding to support state infrastructure projects. These are included as Commonwealth Government payments to state and local governments, and subsequently recorded as infrastructure investments in their respective budget papers.

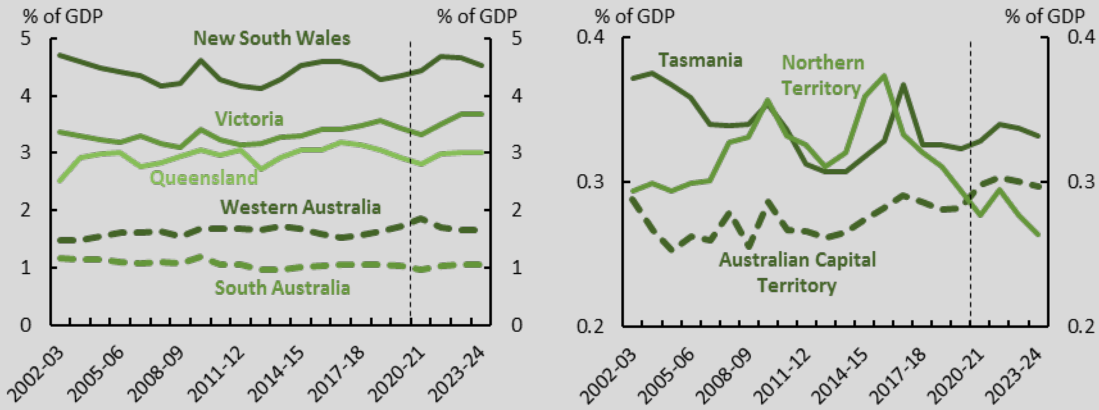
[8] For a discussion of the drivers and risks to Commonwealth receipts and payments, see the PBO's *2020-21 Medium-term fiscal projections report.*

Box 2: State revenue and expenses

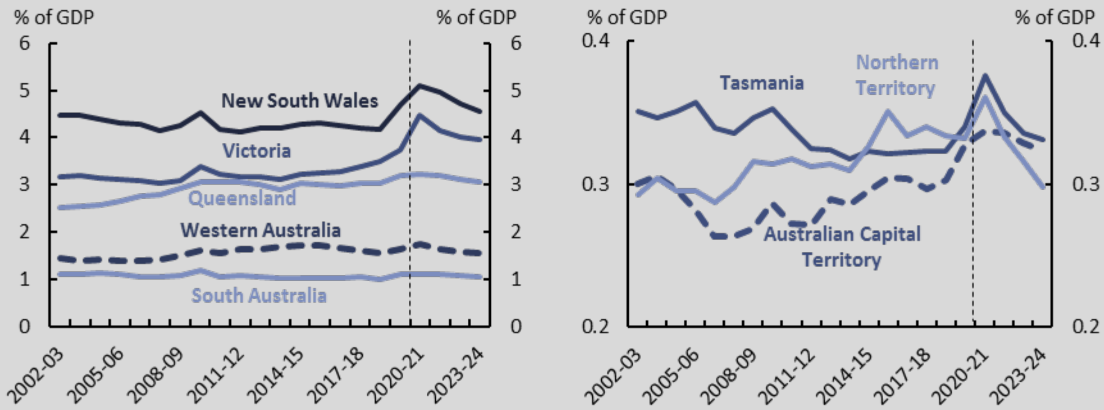
Since the 2019-20 National fiscal outlook, each state has reported a downwards revision in its net operating balance for the period 2019-20 to 2022-23. In aggregate over this period, the state net operating balance was revised downwards by $133 billion, with expenses revised upwards by $92 billion and revenue revised downwards by $41 billion since the previous outlook. All states, with the exception of Western Australia, forecast a cumulative deficit for the period 2020-21 to 2023-24. Western Australia's forecast surplus is driven by higher expected mining royalties and higher taxation revenue.

The aggregate upwards revision in expenses across the states largely reflects the response to the COVID-19 pandemic (Box 1), with some effect from the 2019-20 bushfires. The aggregate downwards revision in revenue mainly reflects lower GST collections and the provision of tax relief such as payroll tax cuts, both of which were linked to the COVID-19 pandemic.

State revenue



State expenses



Every state budget forecasts a sharp increase in expenses as a share of GDP between 2018-19 and 2020-21. Revenue forecasts were relatively less affected, and vary for each state. By 2023-24, most states expect to have higher expenses compared to 2018-19, measured as a per cent of GDP, but they also expect to have higher revenue to help compensate for this. For instance, Victoria's expenses in 2023-24 are expected to be 0.5 per cent of GDP higher than 2018-19, but its revenue is expected to be 0.1 per cent of GDP higher.

The Northern Territory is an exception, forecasting revenue and expenses to be lower as a per cent of GDP in 2023-24 compared to 2018-19.

Further information on the data sources and method used in this report are available in the separate technical appendix. Additional data to that cited in this report is available at the PBO data portal.

This report was authored by Anderson Cheung, Binod Nepal, and Kate Wagner, with the benefit of comments from John Clark, Kathryn Smith and Linda Ward, and contributions from Jonathan Chan, Travis Ey and Lynette Yap. The contents of the report are the sole responsibility of the Parliamentary Budget Office.