



2 December 2021

National fiscal outlook: as at 2021-22 Budgets

Budgets optimistic following better-than-expected initial recovery from COVID-19 ...

With all state and territory 2021-22 Budgets now released, together they depict an Australian economy which recovered swiftly in the wake of the initial outbreak of COVID-19, exceeding most expectations. Compared to our previous outlook in February, estimates for most aggregates improved for 2020-21 and later years.

... indicating pathways for recovery following recent Delta outbreaks.

Despite the initial recovery, the Delta variant of COVID-19 has forced most Australian capital cities into further lockdowns, prolonging the period of recovery from the pandemic. Many of the 2021-22 Budgets were released before the wave of Delta outbreaks (Box 1), making it unlikely that the forecasts included in this iteration of the National fiscal outlook will materialise as expected, at least for the 2021-22 year. The pandemic continues to mean economic and fiscal forecasts can have short shelf lives; however, the estimates included in this report suggest trajectories for the fiscal position after the initial years of the pandemic.

The national budget balance is stronger than expected at the previous outlook ...

The initial recovery from the pandemic in late 2020 and early 2021 was better than expected at the previous outlook, with the national net operating deficit across all governments estimated at 8.3 per cent of GDP (\$171 billion) in 2020-21 at the time of the 2021-22 Budgets—significantly smaller than was forecast following the last outbreak. The improvement reflects both stronger revenue and lower expenses (mainly unwinding of COVID support measures). The budgets expect the recovery over the forward estimates to continue at a similar pace as previous forecasts, with smaller deficits in each year until 2024-25. While the Delta wave will impact outcomes for 2021-22, the budgets reflect a likely recovery path over the next few years.

... with a compounding reduction in national net debt.

While national net debt remains at historical highs, it is forecast to be lower in every year than expected at the previous outlook. In 2023-24, this represents a reduction of \$68 billion, driven mainly by a smaller operating deficit in 2020-21, which has reduced the borrowing requirements of most governments going forward.

Despite the reduction in debt, national public debt interest payments are expected to increase to 1.4 per cent of GDP (\$34 billion) in 2024-25 due to higher interest rate assumptions following an improved economic outlook.

State net capital investment remains well above pre-pandemic levels.

State net capital investment (including government businesses) has been revised upwards for the period 2020-21 to 2023-24, with many states announcing additional (or expanded) capital programs to support economic growth following the pandemic.

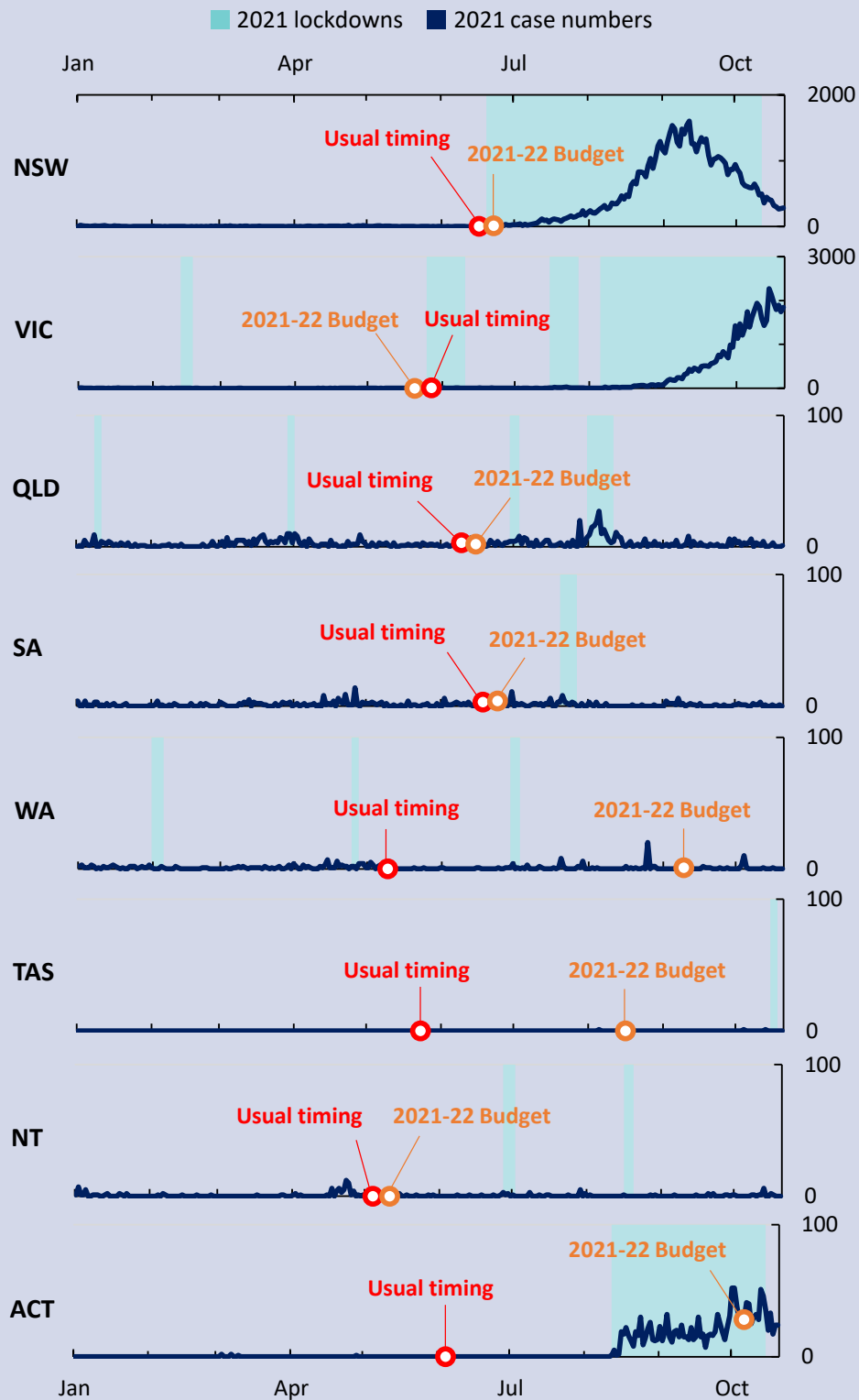
A complementary product, the *2021-22 National fiscal outlook: At a glance*, provides a graphical snapshot of the Commonwealth, state and territory budgets in addition to the national aggregates. Detailed discussion of Commonwealth trends and risks is contained in the Parliamentary Budget Office's (PBO)

***Beyond the budget 2021-22: Fiscal outlook and scenarios* report.**

Box 1: Timing of the 2021-22 Budgets

Most of the 2021-22 Budgets were released before the outbreak of the COVID-19 Delta variant (Figure 1). New South Wales and Victoria—which account for around 55 per cent of aggregate state revenue and expenses—were particularly affected by the Delta variant, with extended lockdowns. Three budgets were also delayed from their usual times.

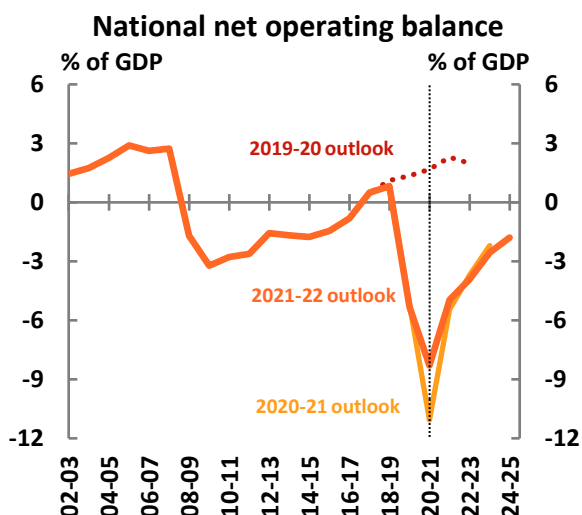
Figure 1: Timing of state budgets, the latest lockdowns and daily case numbers



Note: The 'usual timing' of each budget is when the last pre-COVID-19 budget was released (the 2019-20 Budgets). The 2021-22 Commonwealth Budget was released on its usual second Tuesday of May, seven months after the delayed 2020-21 Budget of 6 October 2020.

Source: 2021-22 state Budgets, covid19data.com.au and various state media releases.

What has changed since the 2020-21 National fiscal outlook? ^{1, 2}

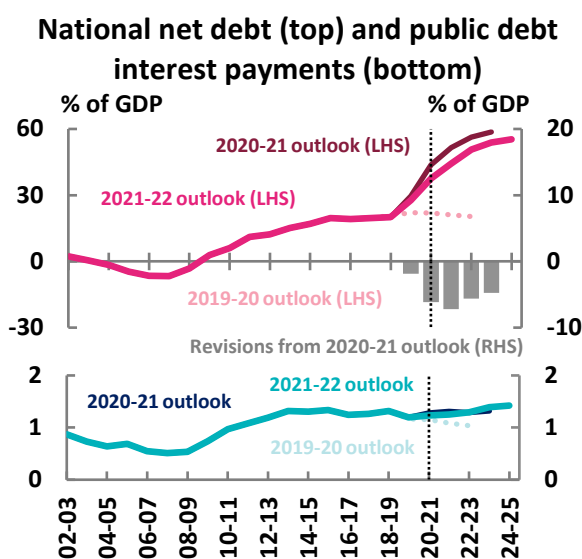


The **national net operating balance** is forecast to improve from a deficit of 8.3 per cent of GDP (\$171 billion) in 2020-21 to a deficit of 1.8 per cent of GDP (\$43 billion) in 2024-25 as Australia emerges from the COVID-19 pandemic.³

Due to the better-than-expected recovery from the first wave of the pandemic, national revenue was revised upwards by \$33 billion for 2020-21 when compared to the previous outlook, and national expenditure was revised downwards by \$18 billion.

Despite the improvement for 2020-21, the national net operating balance is forecast to remain broadly consistent with the previous outlook across the period 2021-22 to 2023-24.

National net debt is forecast to increase from 38 per cent of GDP (\$774 billion) in 2020-21 to 55 per cent of GDP (\$1,325 billion) in 2024-25, largely due to continued operating deficits across the forward estimates.



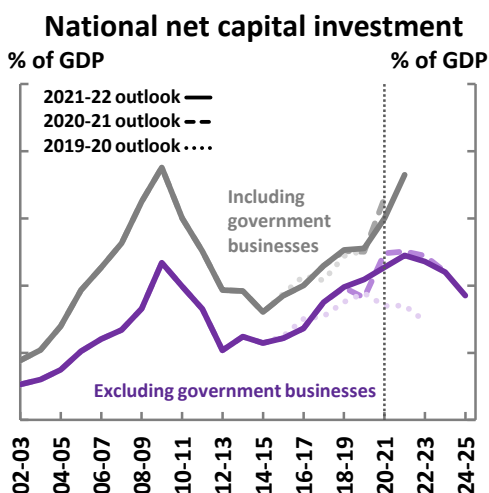
The improved national net operating balance in 2020-21 reduced the borrowing requirements of most governments. Consequently, net debt was revised downwards by \$103 billion for 2020-21, and the forecast for 2023-24 was revised downwards by \$68 billion when compared to the previous outlook.

National public debt interest payments are forecast to rise from 1.2 per cent of GDP (\$25 billion) in 2020-21 to 1.4 per cent of GDP (\$34 billion) in 2024-25. This is \$3.2 billion higher across the period 2020-21 to 2023-24 than forecast at the previous outlook, despite the improvement in the debt position—mostly attributable to the Commonwealth assuming a cost of borrowing 0.8 percentage points higher across the forward estimates when compared to the 2020-21 Budget.⁴

National net capital investment⁵ (excluding government businesses) is forecast to increase to 2.5 per cent of GDP (\$52 billion) in 2021-22 before moderating to 1.9 per cent of GDP (\$44 billion) in 2024-25.

Capital investment for 2020-21 was revised downwards by \$3 billion when compared to the previous outlook, noting that the pandemic created uncertainty around some state capital programs in 2020.

Despite the downwards revision, planned capital investment remains well above the 2019-20 (pre-pandemic) outlook, with most states continuing significant investment programs that are expected to increase economic output and contribute to the nation's recovery from COVID-19.



¹ 2019-20 Budget outcomes have been replaced with data from the ABS' *Government Finance Statistics* (GFS), which adjusts each jurisdiction to a consistent interpretation of GFS classifications.

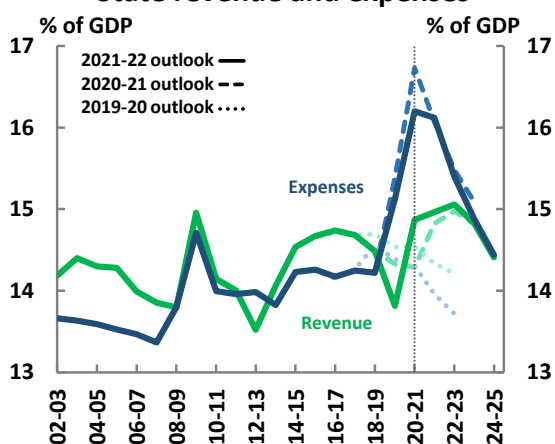
² The forecast for GDP has been revised upwards across the forward estimates when compared to the 2020-21 National fiscal outlook. Consequently, an unchanged or slightly higher dollar amount will appear as a smaller proportion of GDP.

³ 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](#) for further definitions of budget terms.

⁴ Commonwealth Treasury, *2021-22 Budget*, Statement 7: Debt Statement, p. 216.

State trends

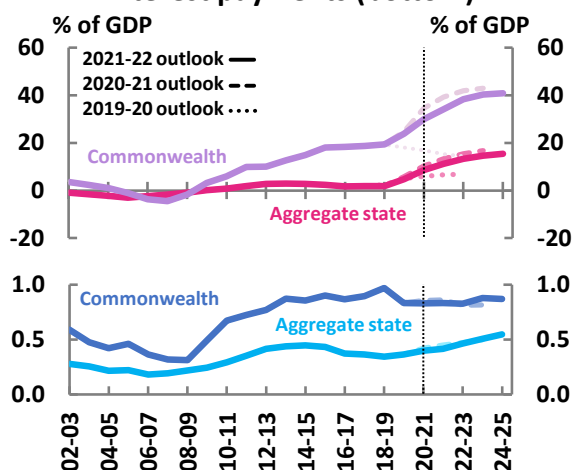
State revenue and expenses



Aggregate state expenses are forecast to reduce from 16.2 per cent of GDP (\$334 billion) in 2020-21 to 14.4 per cent of GDP (\$346 billion) in 2024-25, mainly due to the unwinding of temporary spending on COVID-19-related support measures. When compared to the previous outlook, expenses are forecast to be \$30 billion higher over the period 2020-21 to 2023-24.²

Aggregate state revenue is forecast to increase from 14.9 per cent of GDP (\$306 billion) in 2020-21 to 15.1 per cent of GDP (\$328 billion) in 2022-23 as economic output recovers following the pandemic. State revenue is forecast to be \$60 billion higher across the period 2020-21 to 2023-24, largely due to the better-than-expected recovery from the pandemic in most states during 2020-21.

State net debt (top) and public debt interest payments (bottom)

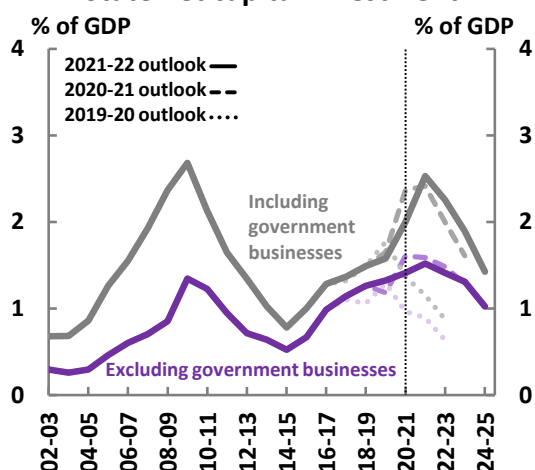


Aggregate state net debt is forecast to increase from 8.6 per cent of GDP (\$177 billion) in 2020-21 to 15.4 per cent of GDP (\$370 billion) in 2024-25, with the majority of state governments forecasting net operating deficits for most of the forward estimates.

Compared to the previous outlook, aggregate state net debt has been revised downwards and is \$37 billion lower in 2023-24 due to smaller-than-forecast operating deficits in each year, reducing borrowing requirements.

Aggregate state public debt interest payments are forecast to increase slightly across the forward estimates, rising from 0.4 per cent of GDP (\$8 billion) in 2020-21 to 0.5 per cent of GDP (\$13 billion) in 2024-25, mostly due to higher interest rate assumptions than at the 2020-21 Budgets.

State net capital investment



Aggregate state net capital investment⁵ (including government businesses) is forecast to increase to 2.5 per cent of GDP (\$54 billion) in 2021-22 before moderating to 1.4 per cent of GDP (\$34 billion) in 2024-25.

Compared to the previous outlook, aggregate state net capital investment has been revised upwards by \$13 billion across the period 2020-21 to 2023-24, with New South Wales and Victoria constituting around \$11 billion of the revision. These investments include New South Wales' *Jobs and Infrastructure Acceleration Fund* and Victoria's *Big Build*.

Further information on the data sources and method used in this report are available in the separate technical appendix. Additional data to those cited in this report is available at the [PBO data portal](#).

This report was authored by Izaac Phillips and Anthea Guthrie, with the benefit of comments from Anderson Cheung, Harry Withers, John Clark, Kathryn Smith and Stein Helgeby. The contents of the report are the sole responsibility of the Parliamentary Budget Office.

⁵ Government businesses are included in the state discussion because forecasts are available across the forward estimates. In contrast, the national figures exclude government businesses because forecasts for Commonwealth government businesses are not available beyond the budget year.