



**Parliament of Australia**  
**Parliamentary Budget Office**

# National fiscal outlook

As at 2016–17 budgets

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# Foreword

This report provides an update to the national fiscal outlook based on Commonwealth and state government 2016–17 budgets. It focusses on changes in the fiscal balance and net debt since the release of 2015–16 Commonwealth and state mid-year fiscal updates.

The report focusses on the general government sector. The data underlying it are available from the PBO website. To allow for the most consistent comparison across jurisdictions, data are sourced from the Australian Bureau of Statistics (ABS) from 2005–06 to 2014–15 (the most recent ABS observation).

From 2015–16 to 2019–20 data are sourced from Commonwealth, state and territory budgets and mid-year updates.

I would like to thank the PBO staff involved in the preparation of this report, namely Tim Pyne, Paul Gardiner and Anupam Sharma. The report was prepared for publication by Louise Milligan.

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Parliamentary Budget Office

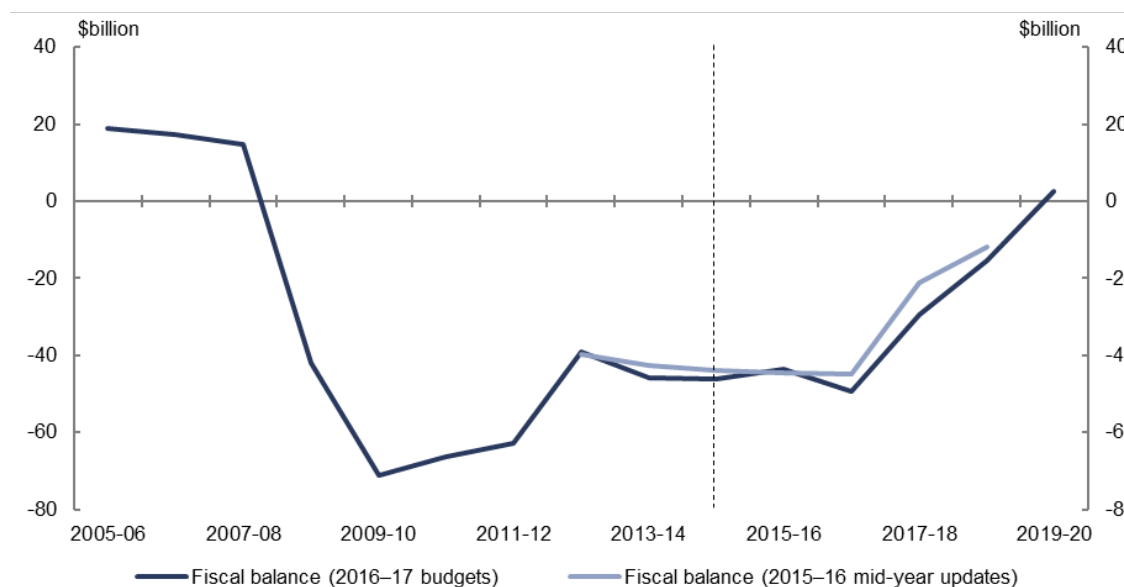
2 November 2016

# 1 National fiscal outlook

The national fiscal outlook has deteriorated since the Commonwealth, state and territory governments<sup>1</sup> delivered their 2015–16 mid-year fiscal updates.

According to Commonwealth and state government 2016–17 budgets the projected national fiscal deficit from 2015–16 to 2018–19 has deteriorated by \$14.9 billion (from a total of \$122.3 billion at the time of the mid-year updates to \$137.1 billion) (Figure 1–1).

**Figure 1–1: National fiscal balance**



Source: ABS and Commonwealth and state budget papers.

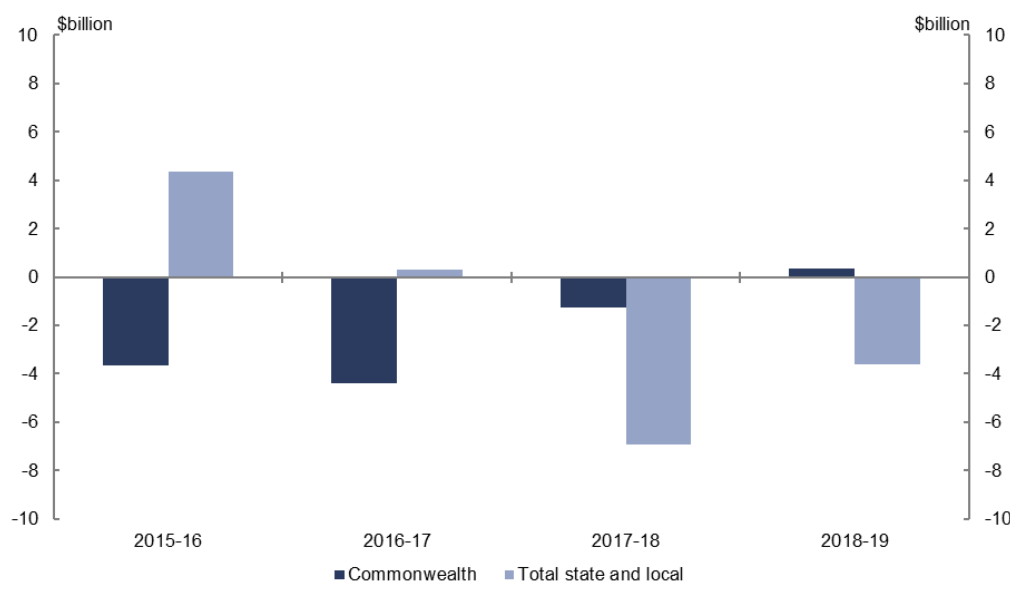
The deterioration in the projected fiscal outlook from 2015–16 to 2018–19 is due to a downward revision in projected revenue of \$18.1 billion along with an upward revision in net capital investment of \$2.8 billion, partially offset by a downward revision in expenses of \$6.0 billion.

Approximately 60 per cent of the deterioration in the national fiscal balance is due to a downward revision of \$8.9 billion in the projected fiscal balance of the Commonwealth (Figure 1–2). This reflects a downward revision in projected Commonwealth revenue of \$16.7 billion, partially offset by downward revisions in projected expenses and net capital investment of \$4.5 billion and \$3.2 billion respectively.

1 State and territory governments are hereafter referred to as ‘states’. State figures in this chapter also include local government. Figures in this chapter have been adjusted for transfers between levels of government.

The remaining deterioration in the national fiscal balance reflects an upward revision in projected state net capital investment of \$6.0 billion and a downward revision in projected state revenue of \$1.4 billion, partially offset by a downward revision in projected state expenses of \$1.4 billion.

**Figure 1–2: Fiscal balance by level of government – change between 2015–16 mid-year updates and 2016–17 budgets**

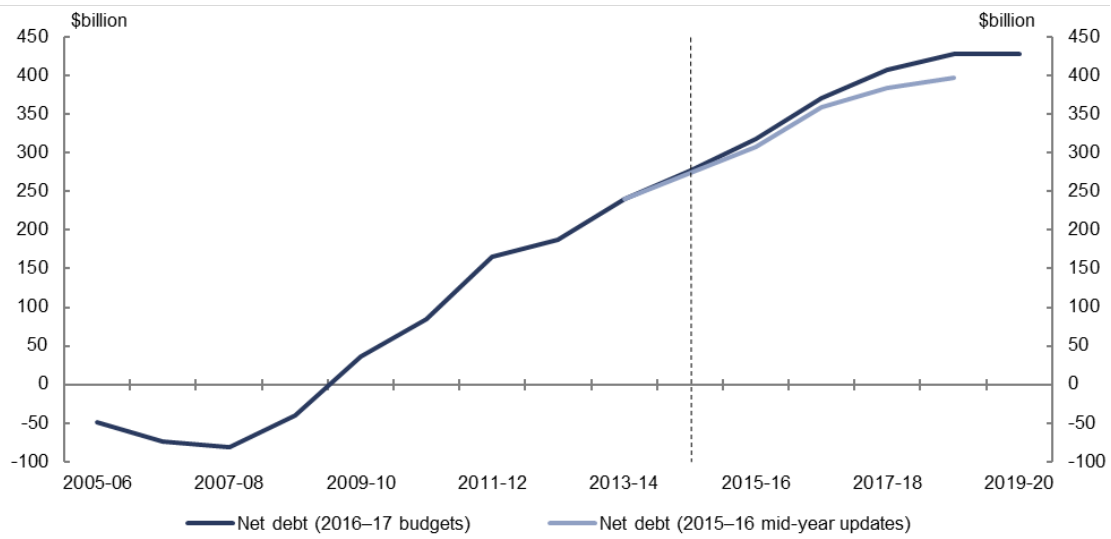


Source: ABS and Commonwealth and state budget papers.

According to Commonwealth and state government 2016–17 budgets the national fiscal balance is projected to return to surplus by 2019–20, driven by the states returning to surplus in aggregate in that year.

National net debt is now projected to rise to \$428.5 billion (22.6 per cent of GDP) in 2018–19 compared with \$397.6 billion (20.8 per cent of GDP) at the time the 2015–16 mid-year updates were delivered (Figure 1–3). National net debt is projected to plateau in 2019–20 at \$428.7 billion.

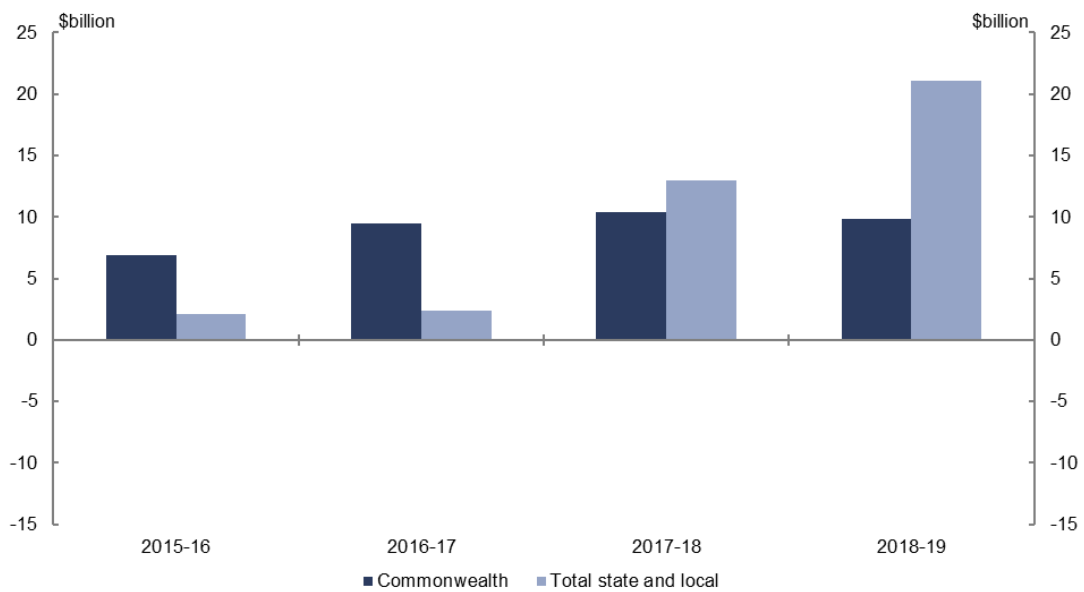
**Figure 1–3: National net debt**



Source: ABS and Commonwealth and state budget papers.

The upward revision to national net debt in 2018–19 is due to the cumulative impact of higher projected Commonwealth and state fiscal deficits over the period (Figure 1–4).

**Figure 1–4: Net debt by level of government – change between 2015–16 mid-year updates and 2016–17 budgets**



Source: ABS and Commonwealth and state budget papers.

## 2 Commonwealth fiscal outlook

### 2.1 Commonwealth fiscal balance

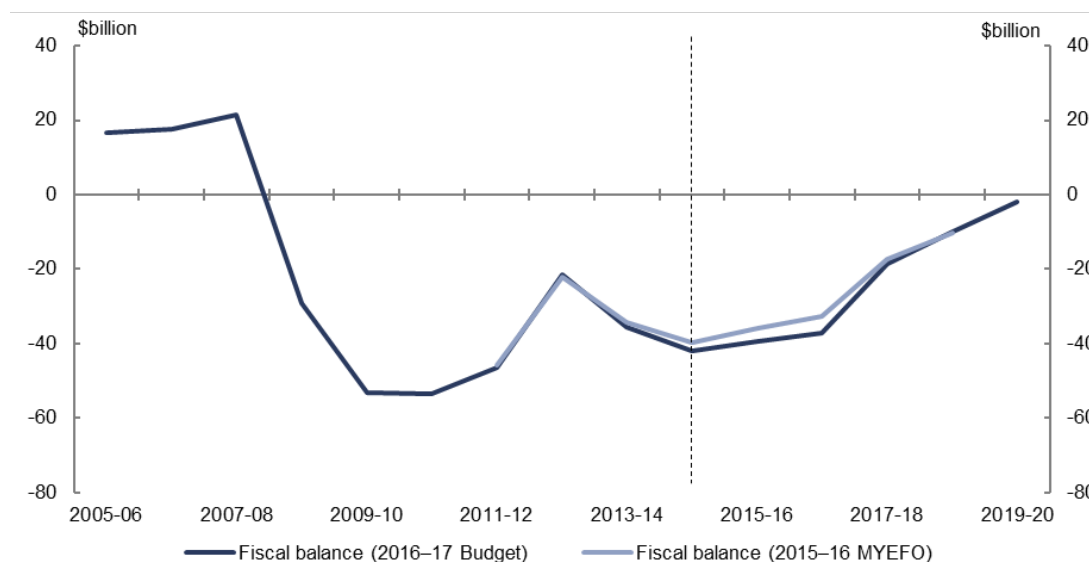
Relative to the 2015–16 mid-year fiscal updates, the Commonwealth’s projected fiscal deficit from 2015–16 to 2018–19 has increased by \$8.9 billion (from \$96.1 billion to \$105.1 billion), driven primarily by a decline in projected revenue, partially offset by a reduction in projected expenses and net capital investment (Figure 2–1).<sup>2</sup>

In the 2016–17 Budget, revenue projections were revised down by a total of \$16.7 billion (from \$1,763.8 billion to \$1,747.2 billion) from 2015–16 to 2018–19. The downward revision primarily reflects lower forecast wages growth which is forecast to reduce individuals and other withholding taxes.

The 2016–17 Budget revised expenses down by a total of \$4.5 billion over the forward estimates (from \$1,840.7 billion to \$1,836.2 billion). The downward revision to expenses is driven by decreases across a range of programs including the National Disability Insurance Scheme following the re-phasing of expenditure on the Scheme, job seeker income support reflecting a lower forecast unemployment rate, and lower public debt interest costs reflecting the lower weighted average cost of borrowing.

The 2016–17 Budget revised net capital investment down by a total of \$3.2 billion from 2015–16 to 2018–19 (from \$19.3 billion to \$16.1 billion), reflecting increased proceeds from the sale of spectrum licenses and the re-phasing of defence net capital investment.

Figure 2–1: Commonwealth fiscal balance



Source: ABS and Commonwealth budget papers.

2 This chapter uses figures as published by the ABS and in Commonwealth budget papers which have not been adjusted for transfers between levels of government.

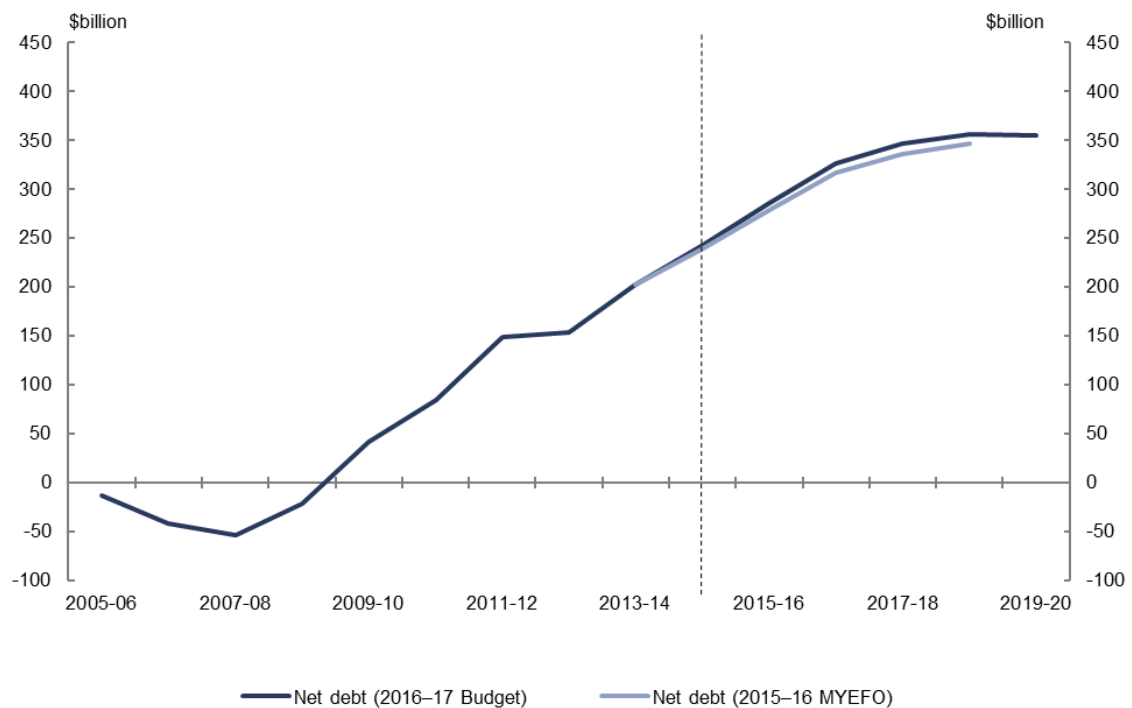


## 2.2 Commonwealth net debt

Commonwealth net debt is projected to increase to \$356.4 billion (18.8 per cent of GDP) in 2018–19, compared with the 2015–16 MYEFO estimate of \$346.6 billion (18.2 per cent of GDP) (Figure 2–2). The upward revision is due to the cumulative impact of higher projected Commonwealth budget deficits over the forward estimates.

As a proportion of GDP, net debt is projected to peak at 19.2 per cent of GDP in 2017–18, before improving to reach 17.8 per cent of GDP by 2019–20.

Figure 2–2: Commonwealth net debt



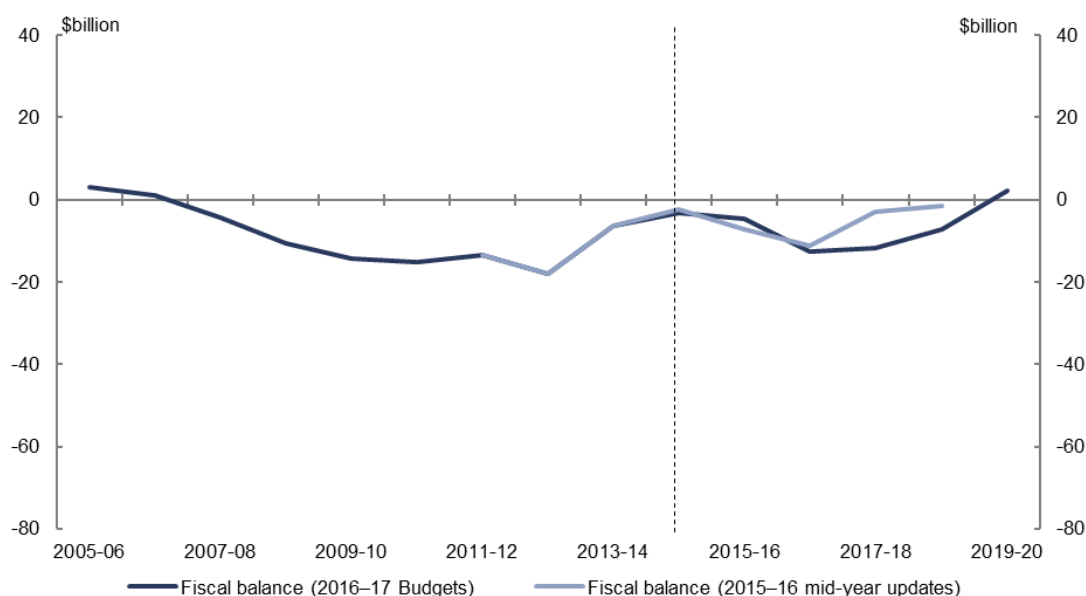
Source: ABS and Commonwealth budget papers.

## 3 State fiscal outlook

### 3.1 State fiscal balance

Relative to 2015–16 state mid-year fiscal updates, the projected aggregate fiscal deficit from 2015–16 to 2018–19 has increased by \$13.3 billion (from \$22.7 billion to \$36.0 billion) (Figure 3–1).<sup>3</sup> This deterioration is primarily driven by a decline in the projected fiscal balances of New South Wales, with smaller contributions from Western Australia and Queensland.

**Figure 3–1: Aggregate state fiscal balances**



Source: ABS and state budget papers.

#### 3.1.1 Variation in fiscal balance projections by state

Relative to the 2015–16 mid-year fiscal updates, major decreases in state fiscal balances are projected in New South Wales, Western Australia and Queensland (Figure 3–2 and Figure 3–3).

The projected decrease in New South Wales' fiscal balance since its mid-year update was mainly driven by a significant increase in infrastructure investment, particularly in rail projects and justice facilities. This is funded in part from the proceeds from the long-term lease of Transgrid (the state-owned electricity transmission network) which were included in the mid-year fiscal update.<sup>4</sup>

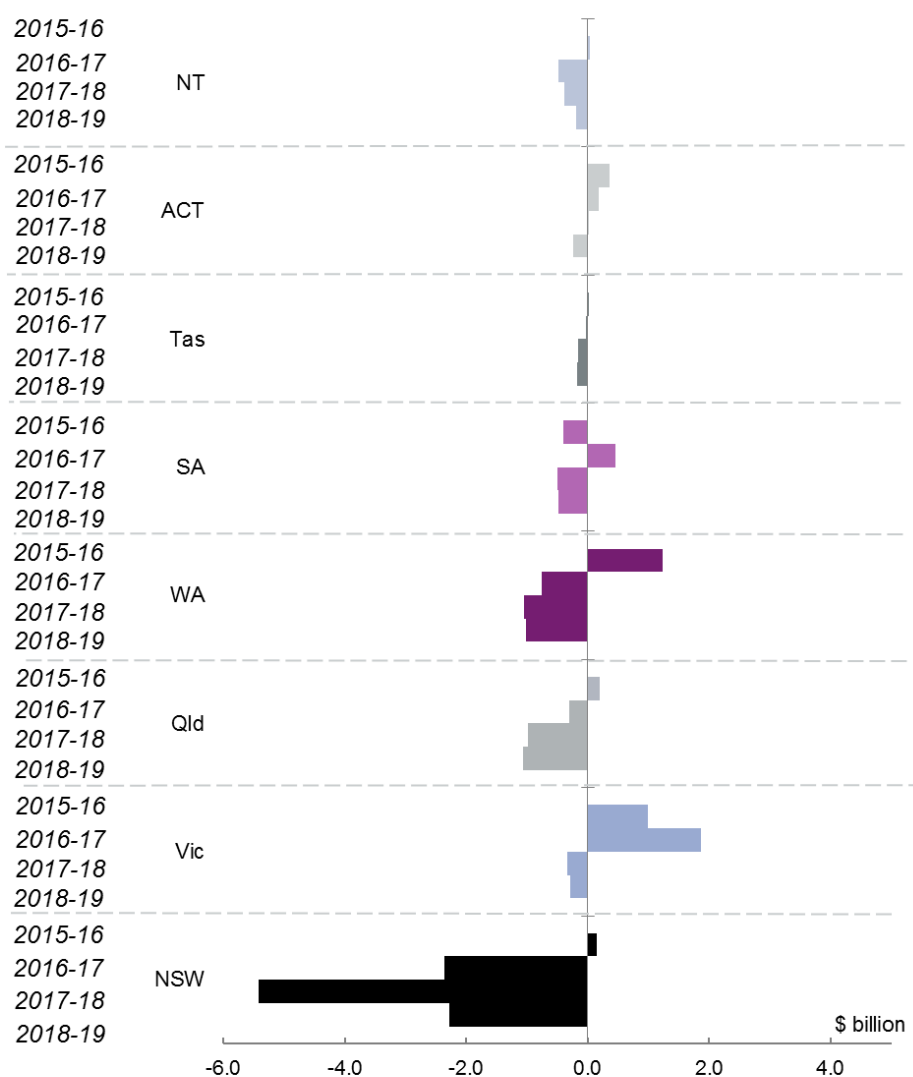
3 Figures in this chapter do not include local government. This chapter uses figures as published by the ABS and in state budget papers which have not been adjusted for transfers between levels of government.

4 The New South Wales 2016–17 Budget estimates do not incorporate the expected proceeds from the partial long-term lease of Ausgrid and Endeavour electricity network businesses.

The projected decrease in Western Australia’s fiscal balance since its 2015–16 mid-year fiscal update is primarily driven by a decrease in own-source taxation revenue due to slower forecast employment and wages growth (reducing payroll tax), and a decline in property market activity (reducing transfer duty). Transfers from the Commonwealth are also lower compared to the mid-year update reflecting a reduced share of GST collections.<sup>5</sup>

The projected decrease in Queensland’s fiscal balance is driven by a combination of new policy initiatives, lower royalty revenue, and increased infrastructure investment in the latter half of the forward estimates.

**Figure 3–2: Fiscal balance by state – change between 2015–16 mid-year updates and 2016–17 budgets**

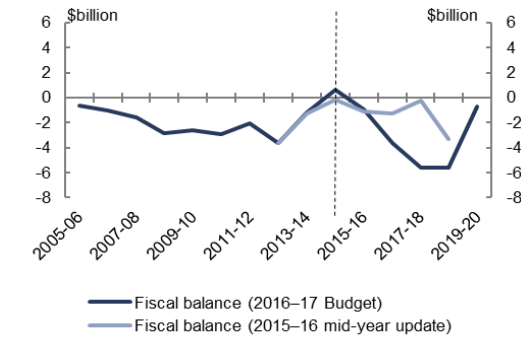


Source: State budget papers.

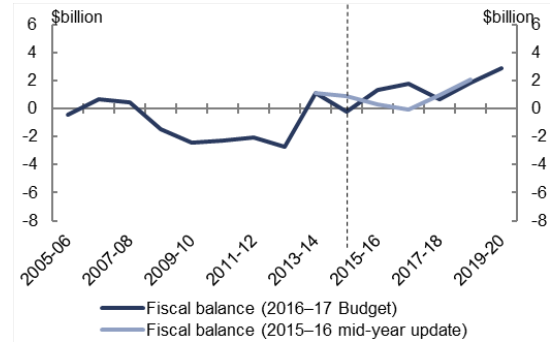
5 The improvement in Western Australia’s fiscal balance in 2015–16 reflects a \$490 million Commonwealth grant in recognition of Western Australia’s currently low GST share, and higher royalty income from higher expected iron ore prices.

Figure 3–3: Fiscal balances for all states and territories

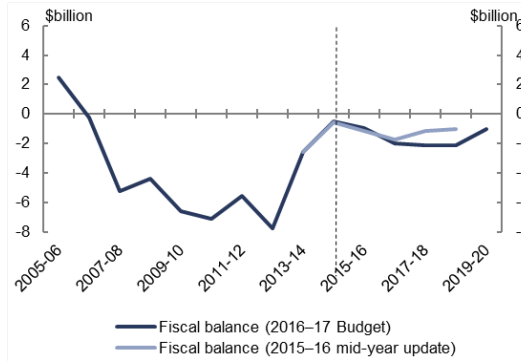
**New South Wales**



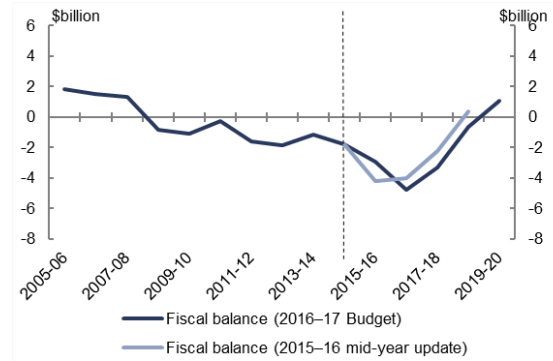
**Victoria**



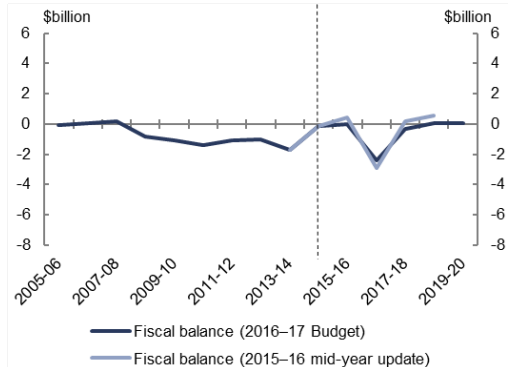
**Queensland**



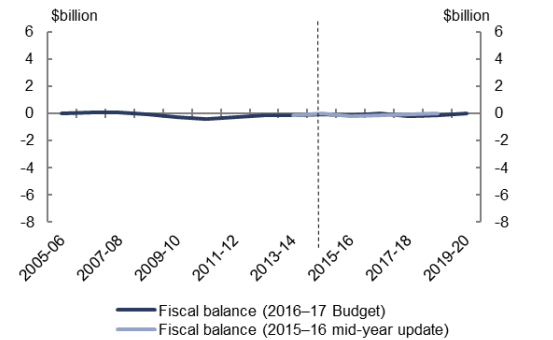
**Western Australia**



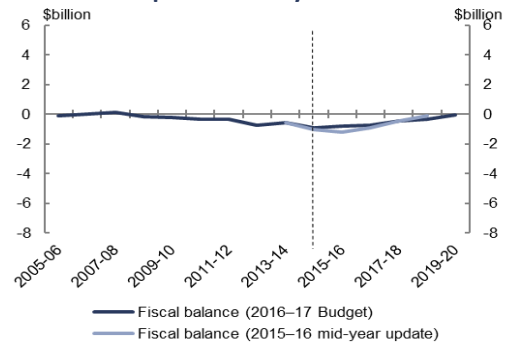
**South Australia**



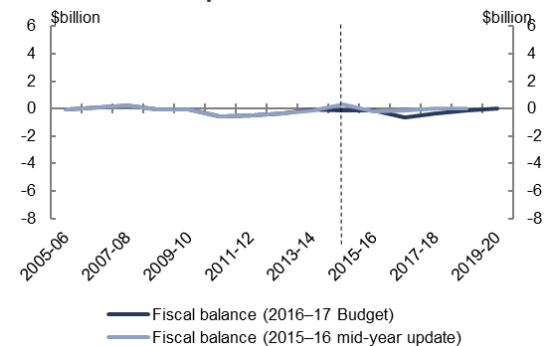
**Tasmania**



**Australian Capital Territory**



**Northern Territory**

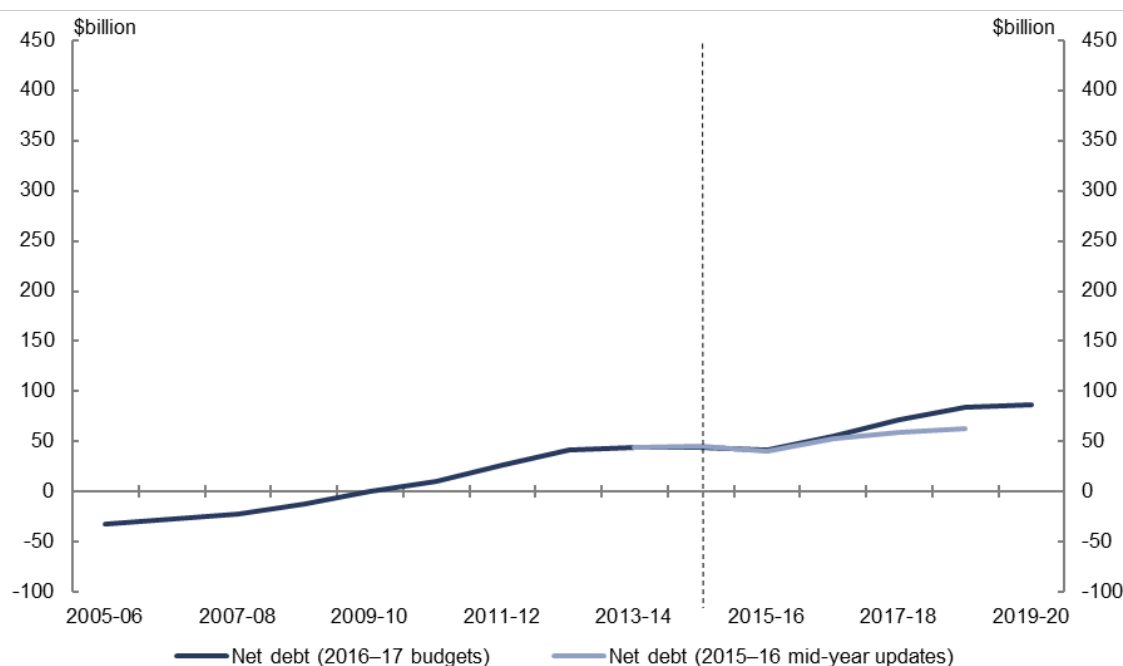


Source: ABS and state budget papers

## 3.2 State net debt

Aggregate state net debt is projected to increase to \$84.6 billion (4.5 per cent of GDP) in 2018–19, compared with the 2015–16 mid-year update estimates of \$63.3 billion (3.3 per cent of GDP) (Figure 3–4).

Figure 3–4: Total state net debt



Source: ABS and state budget papers.

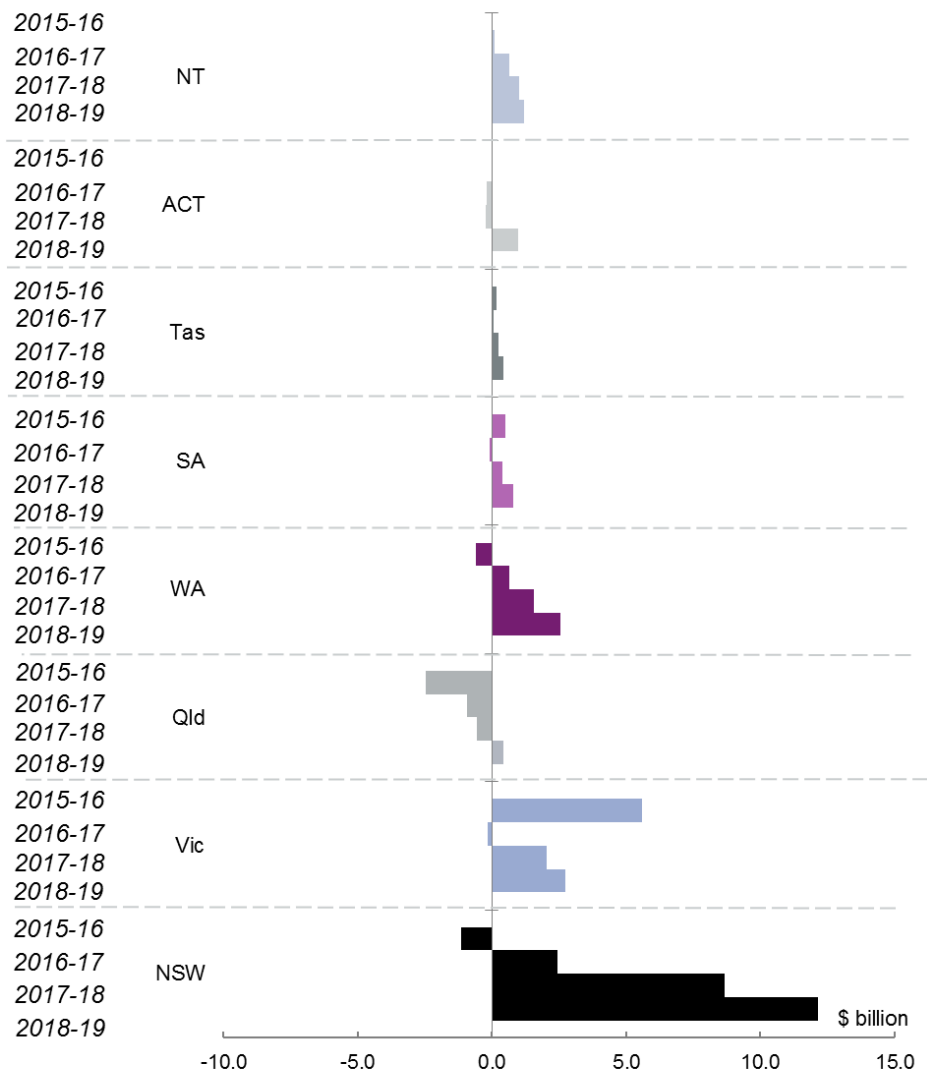
### 3.2.1 Variation in net debt projections by state

Relative to 2015–16 mid-year updates, the majority of the increase in net debt was driven by New South Wales (Figure 3–5). The increase in New South Wales’ projected net debt is mainly due to higher borrowing to fund increased infrastructure spending.

The net debt profile for Victoria reflects the delay in receiving the proceeds from leasing the operations of the Port of Melbourne, from 2015–16 to 2016–17. Higher net debt in Western Australia is largely driven by projected larger fiscal deficits.

The decrease in Queensland’s net debt is mainly driven by the government decision to use a portion of the funds allocated for financing public servants’ superannuation to retire government debt.

**Figure 3–5: Net debt by state – change between 2015–16 mid-year updates and 2016–17 budgets**



Source: State budget papers.



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