

PART 1: OVERVIEW

The Government's economic plan is working, delivering a strong economy and making real progress in restoring the nation's finances.

Our sound economic fundamentals are delivering record numbers of jobs, with Australia's unemployment rate falling to its lowest level in six years. Growth is broadly based and the challenging transition after the resources investment boom is being successfully managed.

Not only is the strong economy presenting Australians with more opportunities, it is delivering a much stronger budget position. After a decade of deficits, the budget is on track to return to surplus in 2019-20, with strong fiscal discipline ensuring these surpluses exceed 1 per cent of GDP in the medium term.

These surpluses will be achieved while still guaranteeing the essential services the community expects and without resorting to growth-inhibiting higher taxes. Net debt is projected to fall across the forward estimates and the medium term.

A strong budget position allows Australia to face the future with confidence – providing a buffer to respond to any adverse developments that might occur in the global economy. It also provides more options when it comes to the policies needed to further enhance Australia's growth prospects.

This includes the delivery of tax relief to encourage and reward working Australians and a bring-forward of tax relief to millions of small and medium-sized businesses. The Government is strengthening Australia's corporate and financial sector regulators, enhancing women's economic security and delivering a fairer GST system for all states and territories. The Government is also making record investments in nation-building infrastructure.

The Government is keeping Australians safe by investing in our border security and national security agencies, developing a world-leading defence industry sector and supporting drought-affected communities across Australia.

At the same time, the Government is guaranteeing essential services for all Australians, including providing record funding on quality health care, disability services, aged care and schools.

The strength of the economy reflects difficult and disciplined decisions taken over the past five years. The Government's economic plan is working but there is no room for complacency. More needs to be done and we must stick to the plan to keep the economy strong and ensure the benefits of a strong economy are felt by every Australian.

UPDATED FISCAL OUTLOOK

Reflecting a strong economy and the Government's responsible budget management, the underlying cash balance is expected to improve from a deficit of \$5.2 billion (0.3 per cent of GDP) in 2018-19 to a surplus of \$4.1 billion (0.2 per cent of GDP) in 2019-20.

Over the four years from 2018-19, the cumulative underlying cash surplus is expected to be \$30.4 billion, nearly double the 2018-19 Budget estimate.

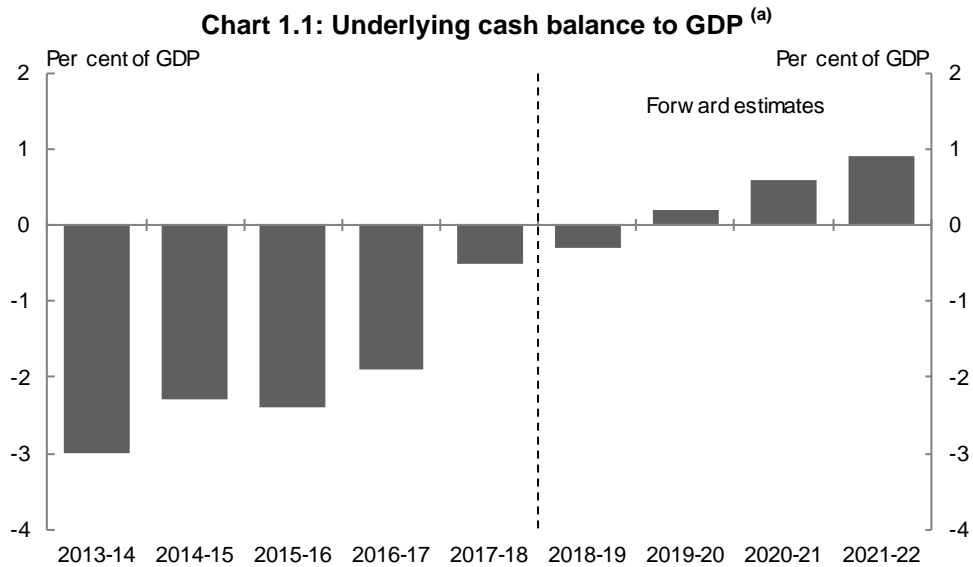
Table 1.1: Budget aggregates

	Estimates			
	2018-19		2019-20	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Underlying cash balance(a)	-14.5	-5.2	2.2	4.1
Per cent of GDP	-0.8	-0.3	0.1	0.2
Net operating balance	-2.4	4.9	8.6	10.1
Per cent of GDP	-0.1	0.3	0.4	0.5
	Projections			
	2020-21		2021-22	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Underlying cash balance(a)	11.0	12.5	16.6	19.0
Per cent of GDP	0.5	0.6	0.8	0.9
Net operating balance	19.6	20.4	27.4	29.8
Per cent of GDP	0.9	1.0	1.3	1.4

(a) Excludes expected net Future Fund earnings before 2020-21.

The payments-to-GDP ratio, which was 25.4 per cent in 2013-14, is expected to be 24.9 per cent in 2018-19, falling to 24.6 per cent by 2020-21, below the 30-year historical average of 24.7 per cent. Average annual real growth in payments over the five years from 2017-18 is expected to be 1.9 per cent.

Between 2013-14 and 2017-18, the underlying cash balance improved by 2.5 percentage points of GDP. Looking ahead, the budget position is expected to strengthen further, with an average annual pace of fiscal consolidation of 0.4 per cent of GDP expected over the forward estimates period.



(a) The underlying cash balance includes expected net Future Fund earnings from 2020-21.

Since the 2018-19 Budget, expected total receipts have been revised up by \$8.3 billion in 2018-19 and \$12.4 billion over the four years to 2021-22. This revision reflects stronger-than-expected collections from individuals taxes and company tax, stronger employment growth projections and higher growth in corporate profits in 2018-19, particularly mining company profits. Tax receipts are projected to remain below the Government’s tax-to-GDP cap of 23.9 per cent until 2025-26, when the cap takes effect.

As a result of the improved budget position, net debt as a share of GDP is expected to decline in each year of the forward estimates and medium term, falling from 18.2 per cent in 2018-19 to 1.5 per cent in 2028-29.

Gross debt, in per cent of GDP terms, is estimated to have peaked in 2017-18 and to then decline over the medium term.

UPDATED ECONOMIC OUTLOOK

Australia's economy continues to perform well. Real GDP is expected to grow by 2¾ per cent in 2018-19, in line with the economy's estimated potential growth rate. Growth is expected to strengthen to 3 per cent in 2019-20. This growth outlook is forecast to support continuing employment growth, helping to keep the unemployment rate around recent lows.

Economic growth is broadly based. Household consumption, public final demand and non-mining business investment are all expected to support GDP growth over the forecast period. Australia's mining and services exports are also expected to support growth.

Above-average business conditions and positive business and consumer sentiment are helping to underpin the positive outlook.

Drought conditions in parts of Australia are expected to have an impact on rural exports in 2018-19, while dwelling investment is expected to decline in 2019-20 as some of the recent strength in construction activity unwinds.

Table 1.2: Major economic parameters^(a)

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

(a) Year average growth unless otherwise stated. From 2017-18 to 2019-20, 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.

Nominal GDP is forecast to grow by 4¾ per cent in 2018-19, stronger than forecast at Budget as a result of higher-than-assumed non-rural commodity prices. A decline in the price of metallurgical coal is still assumed to occur, though later than assumed at Budget. This contributes to a forecast moderation in nominal GDP growth in 2019-20 to 3½ per cent.

The global economy has continued to grow at a solid rate since the start of the year. Global growth of 3¾ per cent is expected in 2019 and 2020, while growth in Australia's major trading partners is forecast to be 4 per cent in each of the next two years.

DELIVERING ON THE GOVERNMENT'S ECONOMIC PLAN

The Government is delivering on its agenda for the ongoing security and prosperity of the country by keeping the economy strong and guaranteeing essential services.

Keeping the economy strong

The Government is continuing to support a strong economy by: providing personal income tax relief; giving businesses opportunities to invest, grow and employ more Australians; strengthening corporate and financial sector regulators; investing in critical infrastructure and drought resilience; giving women greater opportunities and financial security; and putting downward pressure on power bills.

Support for small and medium-sized businesses

The Government has fast-tracked tax relief for around 3.3 million small and medium-sized businesses. A company with a turnover below \$50 million will now have a tax rate of just 25 per cent in 2021-22, rather than from 2026-27 as legislated under the original Enterprise Tax Plan. Similar fast-tracking will apply to the roll out of the 16 per cent tax discount for unincorporated businesses.

This means that a small business such as an independent supermarket can invest more back into the business, employ more people and increase wages.

The Government is also establishing a \$2 billion Australian Business Securitisation Fund to provide significant additional funding to smaller banks and non-bank lenders to on-lend to small businesses on more competitive terms.

The Government is encouraging the creation of the private sector-owned Australian Business Growth Fund which would provide longer-term and passive equity funding to small businesses.

The Government is also cutting red tape for small business by reducing financial reporting burdens, helping small businesses get paid on time, assisting small businesses with tax disputes, and supporting small businesses to go digital.

Strengthening corporate and financial sector regulators

The Government is committed to ensuring Australia's corporate and financial sector regulators are equipped with the resources and powers they need to effectively detect, deter and punish those who do the wrong thing.

The Australian Securities and Investment Commission will be provided additional funding of \$70.1 million to combat misconduct in the financial services industry and to discharge its regulatory responsibilities.

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To reinforce the resilience and soundness of Australia's financial system, the Government is providing \$58.7 million of new funding for the Australian Prudential Regulation Authority.

The Government will also allocate \$51.5 million to the Commonwealth Director of Public Prosecutions and the Federal Court of Australia to enable court actions for corporate and financial services misconduct to be dealt with effectively and expeditiously.

The Australian Competition and Consumer Commission (ACCC) will be provided with an additional \$35.6 million over four years from 2018-19 to strengthen its core functions and undertake additional investigations into corporate misconduct.

Investing in infrastructure to tackle congestion and lift productivity

The Government's \$75 billion 10-year national infrastructure plan will benefit people and businesses in every state and territory by tackling congestion, improving safety and delivering essential transport links.

This plan includes major commitments such as \$5.3 billion to deliver Western Sydney Airport, a commitment of \$5 billion for the Melbourne Airport Rail Link and an additional \$3.3 billion for upgrades on the Bruce Highway in Queensland. Construction commenced on Western Sydney Airport on 24 September 2018 with earthmovers breaking ground on the project. The airport will open in 2026, catering for up to 10 million passengers each year. About 11,000 jobs will be created during the construction phase and about 28,000 jobs within five years of opening.

In Western Australia, the Government is supporting the METRONET project. The Commonwealth has committed substantial funding in South Australia, including for priority North-South Road Corridor projects. In Tasmania, the Bridgewater Bridge replacement will address peak hour congestion on the Midland Highway.

The Government's vision to connect key sectors, such as agriculture and mining, to domestic and international markets will see a \$9.3 billion investment to deliver the Melbourne to Brisbane Inland Rail and a \$3.5 billion investment in the Roads of Strategic Importance initiative. Construction of Inland Rail is now underway, with work commencing on the Parkes to Narromine section of the line on 13 December 2018. About 16,000 jobs will be supported throughout the Inland Rail construction phase and further ongoing operational jobs will be generated when the track is completed in 2025.

The Government has also committed \$1 billion towards the new Urban Congestion Fund which will support projects which target congestion, including to remediate pinch points, improve traffic safety and increase network efficiency for commuter and freight movements in urban areas.

Supporting the future of our cities and regional communities

Building more liveable and prosperous communities is a key priority of the Government. By working closely with state, territory and local governments, the Government is supporting the future of our cities through the City Deals agenda. City Deals worth a total of \$4.2 billion are being delivered in Townsville, Launceston, Western Sydney and Darwin. The Government has also announced its commitments for the Geelong City Deal while continuing to negotiate deals for Hobart, Adelaide and Perth.

In addition, the Government has announced its intention to adapt the City Deal framework for regional communities through pilot Regional Deals.

Where possible, Regional Deals will leverage and complement the Government's investment in regional development through the \$641.6 million Building Better Regions Fund, \$272.2 million Regional Growth Fund, and \$222.3 million Regional Jobs and Investment Packages.

The delivery of transformational water projects to ensure water security and create jobs and opportunities in regional Australia will be supported through a \$750 million increase to the National Water Infrastructure Development Fund including funding for the construction of the Hughenden Irrigation Scheme. In addition, adjustments to the lending arrangements for the \$2 billion National Water Infrastructure Loan Facility will increase the number of commercially viable projects that can access funding.

The Government will invest up to \$200 million to secure Townsville's long-term water supply including fully funding Stage 2 of the Haughton Pipeline extension and providing \$5 million to develop the project's business case. This follows recommendations to Government from the Townsville Water Security Taskforce, initiated through the Townsville City Deal.

This builds on the \$75 million already allocated from the Government's Townsville Eastern Access Rail Corridor commitment to the Port of Townsville Channel Capacity Project, ensuring the Port remains globally competitive and is capable of hosting large cargo and passenger ships.

Responding to the drought and building future resilience

The Government is responding to the drought with over \$1.8 billion in assistance measures and concessional loans to support drought-affected farmers and communities. In addition, a \$3.9 billion Future Drought Fund – which will grow to \$5 billion – is being established to provide a sustainable source of funding for future drought resilience, preparedness and recovery projects.

Resolving workforce shortages in regional and rural areas

The Government is providing more support to farmers to resolve labour shortages in regional and rural areas. The Government is making changes to the Working Holiday Maker, Pacific Labour Scheme and Seasonal Worker visa programs to address genuine workforce shortages in regional Australia without displacing Australian workers. These programs will provide farmers with more workers when they need them. This will help Australian farmers to increase production and take advantage of our free trade agreements with China, Japan and South Korea.

Managing population change

The Government is working with states, territories and local governments to improve the coordination of population planning to ensure Australia continues to reap the benefits of population growth while managing the challenges it presents. Population growth in recent years has put pressure on our big cities, even as a number of our regional areas and smaller cities call for more people to grow their communities and fill critical skills gaps. The Government is committed to improving the quality of life for all Australians. This includes maintaining our economic prosperity but also focusing on supporting necessary infrastructure, services and social cohesion.

Enhancing women's economic security

The Government is delivering practical measures to give women greater opportunities and financial security, building on gains in the female workforce participation rate and a narrowing in the gender pay gap.

The Women's Economic Security Package invests \$119.2 million over four years to focus efforts on further improving workforce participation, earning potential and economic independence. The package includes a number of measures, including boosting entrepreneurship in girls and young women through the Future Female Founders and Boosting Female Founders programs. The package also provides primary carers of children with better access to Parental Leave Pay and more flexibility in how it is used.

Placing downward pressure on power bills

The Government is keeping the economy strong by placing downward pressure on power bills and improving the reliability of Australian energy. With wholesale power prices down 17 per cent this year, further actions are being taken, including a default electricity retail offer to apply from 1 July 2019, the Retailer Reliability Obligation, a program to underwrite new generation, and strong new powers to respond to electricity market misconduct identified by the ACCC. The ACCC and Australian Energy Regulator will be provided with \$50.2 million over four years from 2018-19 to support these actions.

Providing a fairer way of distributing GST

The Government has reformed Australia's system of horizontal fiscal equalisation (HFE) to provide a fairer and more sustainable way to distribute GST revenues among the states and territories (the states). As was noted when the reforms were legislated, all states will be better off, receiving an expected extra \$9 billion over the next ten years. In 2026-27 and every year thereafter, the states will receive more than \$1 billion additional revenue from the fairer HFE arrangements. A fairer and more predictable GST distribution system will support a strong economy by helping the states better manage their budgets to deliver essential services on which Australians rely.

Ensuring the fairness of the tax system

To protect the integrity of GST revenues, the Government has extended the GST compliance program for a further four years. This will enable the Australian Taxation Office to maintain its current compliance activities to ensure businesses meet their GST obligations. Funding in this program will also now be directed towards emerging risks to the GST system, such as those posed by technological advances and the development of new business models. This will deliver an additional \$2.3 billion to the states over the forward estimates period.

The Government has also delivered on its commitment to make feminine hygiene products GST-free from 1 January 2019, having secured the unanimous agreement of the states, and giving effect to this in the law.

The Government's response to the Callaghan Review of the Petroleum Resource Rent Tax (PRRT) provides certainty to the industry and ensures the PRRT better reflects Australia's petroleum industry today.

Stepping up Australia's engagement in the Pacific

Australia is stepping up its engagement in the Pacific through a new package of initiatives which build on and strengthen our partnerships in the region. The Government is working with Pacific Island partners on these initiatives to contribute to the greater stability, security and prosperity of the region.

This work includes the establishment of the Australian Infrastructure Financing Facility for the Pacific, a \$2 billion initiative to boost Australia's support for infrastructure development in the region. The Government has also committed an extra \$1 billion of callable capital for *Efic*, Australia's export financing agency, to support investments in the region that have a broad national benefit to Australia.

Guaranteeing essential services

The Government is guaranteeing the essential services on which Australians rely including ensuring access to quality health and aged care and providing needs-based, simple and transparent schools funding.

Ensuring access to quality and affordable health care

The Government is committing record funding to health, with total spending expected to increase from \$80.2 billion in 2018-19 to \$85.2 billion in 2021-22. It is continuing to improve patient access to essential health care and affordable medicines, including through measures to strengthen primary care.

The Government is continuing to meet its commitment to list new medicines on the Pharmaceutical Benefits Scheme. This includes \$1.4 billion for new and amended listings, including new medicines to treat cystic fibrosis, familial hypercholesterolemia and non-small cell lung cancer, ensuring Australians continue to have access to affordable medicines.

Over the five years to 2018-19, Commonwealth funding to the states for public hospitals is expected to grow by more than 50 per cent. The Government is providing \$1.3 billion over four years from 2018-19 to establish a Community Health and Hospitals Program. The Program will fund projects and services to support patient care while reducing pressure on community and hospital services.

Under the program, the Government will partner with communities, the states, health and hospital service providers and research institutions to provide additional funding in four key areas:

- specialist hospital services such as cancer treatment, rural health and hospital infrastructure;
- drug and alcohol treatment;
- preventative, primary and chronic disease management; and
- mental health and palliative care.

To enhance primary care, the Government will introduce new Medicare Benefits Schedule (MBS) items, including \$110.7 million to provide best practice care to individuals with severe eating disorders, \$33.5 million to improve access to GPs in rural and remote areas, and \$98 million to improve access to GPs in residential aged care facilities. In addition, \$58.9 million will be provided for new and amended listings on the MBS, including new items for genetic testing for the diagnosis of Alport syndrome, obstetric Magnetic Resonance Imaging (MRI) for pregnant women to allow investigation and diagnosis when fetal central nervous system abnormality is suspected, and for the mobile provision of x-rays to patients in residential aged care facilities. In addition, \$176.4 million will be provided for licences for an additional 30 Medicare-eligible MRI machines.

The Government will extend the Health Care Homes Trial for patients with chronic and complex conditions and establish a new wound management trial to test models of care for chronic wound management. A Neurological Nurse Specialist Pilot will be funded to improve access to specialised nursing care in the community for people living with neurological conditions.

The Government is committed to continuing to improve the mental health outcomes of Australians. Additional funding of \$56.7 million over four years from 2018-19 will be provided for Primary Health Networks to commission increased youth mental health services from the *headspace* network. The Government has also announced a Productivity Commission inquiry into improving mental health to support economic participation and enhance productivity and economic growth.

Improving access to quality aged care

The Government is continuing to invest in aged care, with total spending expected to reach a record \$23.5 billion in 2021-22.

This includes supporting older Australians to access quality aged care services and improving regulatory settings in the sector. An additional \$287.3 million has been provided to bring forward by one year to 2018-19 the release of 5,000 level 3 and 5,000 level 4 home care packages to connect more older Australians with high-level home care support. The Government is also providing \$56.4 million to assist people in home care by reducing the maximum basic daily fee service providers can charge. In addition, the Government will provide \$111.2 million to increase the residential aged care viability and homeless supplements by 30 per cent to support people in residential aged care in regional, rural and remote areas of Australia and those at risk of homelessness.

The Government has established a Royal Commission into Aged Care Quality and Safety to examine the quality and safety of care provided to senior Australians in residential and home-based aged care and to young Australians with disabilities living in aged care. The Government will provide \$104.3 million over four years from 2018-19 for the Royal Commission and \$17.2 million over two years from 2018-19 to the Department of Health, the Australian Aged Care Quality Agency and the Australian Aged Care Quality and Safety Commission to support activities associated with the Royal Commission.

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Needs based, simple and transparent schools funding

The Government is delivering on its commitment to excellence in education by providing needs-based funding to deliver the best outcomes for Australian students.

In 2018, the Commonwealth will provide \$18.7 billion, which will grow to \$31.4 billion by 2029, representing a total Commonwealth commitment of \$307.7 billion in schools funding to 2029. The Commonwealth is working with the states to ensure that this funding is directed towards higher student achievement and greater support for schools and teachers.

The Government has also guaranteed funding to the non-government schools sector. Commonwealth funding for non-government schools will be linked to parental income from 2020 using improved data collection and analysis that will ensure non-government schools funding is targeted at the students who need it most. To support schools during the transition, the Commonwealth Government will provide \$3.2 billion over the medium term to support students, parents and teachers of non-government schools. In addition to this, the Government is providing \$1.2 billion for the Choice and Affordability Fund to address specific challenges in the non-government schools sector, such as supporting schools in drought-affected areas, schools that need help to improve performance, and to deliver choice in communities.

Supporting victims of child sexual abuse, elder abuse and domestic violence

In response to the recommendations of the Royal Commission into Institutional Responses to Child Sexual Abuse, the Government has established the National Office for Child Safety to provide national leadership to reduce future harm to children. In addition, the Government will expand the Witness Assistance Service of the Commonwealth Director of Public Prosecutions, which provides information and support services to victims of institutionalised child sexual abuse and their families.

The Women's Economic Security Statement includes a number of measures to support victims of family and domestic violence, including Specialist Domestic Violence units and Health Justice Partnerships. The early release of superannuation for victims of domestic and family violence will be extended to provide victims with greater economic independence and ease hardship. The No Interest Loan Scheme run by Good Shepherd Microfinance is being expanded, which will help more domestic violence victims to meet the expenses involved in rebuilding their lives. Additional funding will be provided to ensure victims of family violence are not subject to direct cross-examination by perpetrators in family law matters.

The Government will establish a National Elder Abuse Hotline to provide a single point of access to state- and territory-based services for older people and their families seeking assistance to address elder abuse.