

Part 1: Overview

The 2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO) confirms the budget remains on track to return to surplus in 2019-20. The Government is making investments to strengthen the economy for all Australians while staying the course with considered, disciplined, and responsible economic and fiscal management.

The Government remains committed to securing the nation's finances. In 2018-19, the Commonwealth budget returned to balance for the first time in 11 years and, in 2019-20, the budget is expected to return to surplus. The budget is expected to be in surplus across all years of the forward estimates and surpluses continue to build to over 1 per cent of GDP in the medium term. The Government's responsible budget management has ensured the budget has the capacity to deal with immediate challenges, including additional funding in response to the drought, increased investments in infrastructure, and further support for essential services such as aged care.

Australia's economy continues to show resilience in the face of weak momentum in the global economy as well as domestic challenges such as the devastating effects of drought and bushfires.

GDP growth in the first three quarters of 2019 was stronger than it was in the second half of 2018. However, while economic activity has continued to expand, growth has been slower than was expected at the 2019 Pre-election Economic and Fiscal Outlook (PEFO). The labour market remains strong and domestic demand is expected to pick up. The Government's tax plan and \$100 billion Infrastructure Investment Plan are providing support to the economy.

The Government's economic and fiscal plan continues to serve Australia well. Continuing to build a strong fiscal position supports the Government's capacity to respond flexibly to unforeseen events and challenges.

Responsible fiscal management also provides the stability and certainty that households and businesses need to plan for the future, giving them confidence to spend and invest knowing that the Government can keep taxes low and guarantee funding for essential services.

Updated fiscal outlook

The underlying cash balance is expected to improve from broad balance in 2018-19 to a surplus of \$5.0 billion in 2019-20 (0.3 per cent of GDP). Underlying cash surpluses are expected to continue over the remaining years of the forward estimates. Over the four years from 2019-20, the cumulative underlying cash surplus is expected to be \$23.5 billion.

Table 1.1: Budget aggregates

	Estimates					
	2019-20			2020-21		
	Budget \$b	PEFO \$b	MYEFO \$b	Budget \$b	PEFO \$b	MYEFO \$b
Underlying cash balance(a)	7.1	7.1	5.0	11.0	11.0	6.1
Per cent of GDP	0.4	0.4	0.3	0.5	0.5	0.3
Net operating balance(b)	12.9	12.9	8.0	18.2	18.2	12.1
Per cent of GDP	0.6	0.6	0.4	0.9	0.9	0.6
	Projections					
	2021-22			2022-23		
	Budget \$b	PEFO \$b	MYEFO \$b	Budget \$b	PEFO \$b	MYEFO \$b
Underlying cash balance(a)	17.8	17.8	8.4	9.2	9.2	4.0
Per cent of GDP	0.8	0.8	0.4	0.4	0.4	0.2
Net operating balance(b)	28.8	28.8	17.8	20.6	20.6	11.6
Per cent of GDP	1.3	1.3	0.8	0.9	0.9	0.5

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

(b) The estimates and projections for MYEFO include impacts resulting from the implementation of AASB 16.

The Government continues to take a disciplined approach to prioritising new spending. Overall growth in government spending remains prudent, with average annual real growth in payments projected to be 1.3 per cent across the forward estimates.

Since the 2019 PEFO, expected total receipts have been revised down by about \$3.0 billion in 2019-20 and \$32.6 billion over the four years to 2022-23. The downward revision in 2019-20 is mainly driven by downgrades to superannuation fund taxes and GST, as well as non-tax receipts. The downward revision from 2020-21 to 2022-23 is mainly driven by downgrades to the forecasts for individuals taxes, company tax and GST. Tax receipts are projected to remain below the Government's tax-to-GDP cap of 23.9 per cent over the medium term.

Between 2013-14 and 2019-20, the underlying cash balance is expected to have improved by 3.3 percentage points of GDP. Looking ahead, underlying cash surpluses are projected across the medium term, reaching 1 per cent of GDP in 2026-27, unchanged since the PEFO.

Net debt is projected to be \$392.3 billion in 2019-20 (19.5 per cent of GDP) and to improve across the forward estimates and medium term. Gross debt as a share of GDP is also expected to decline over the forward estimates and medium term.

The Government is implementing the plan it took to the 2019 federal election and delivering for the Australian people. This includes funding all of its election commitments, returning the budget to surplus, delivering more jobs, lowering taxes, guaranteeing essential services, and keeping Australians safe.

Updated economic outlook

Australia's economy continues to show resilience in the face of weak momentum in the global economy, as well as domestic challenges such as the devastating effects of drought and bushfires. While economic activity has continued to expand, these factors have resulted in slower growth than had been expected at PEFO. Real GDP is forecast to be 2¼ per cent in 2019-20. Growth is expected to strengthen to 2¾ per cent in 2020-21.

GDP growth in the first three quarters of 2019 has been stronger than it was in the second half of 2018. The labour market remains strong and domestic demand is expected to pick up over the forecast period. Growth in household consumption and non-mining business investment is forecast to increase, and mining investment is forecast to grow for the first time in seven years. Public final demand is expected to continue to contribute to growth. Export growth is forecast to remain strong, reflecting a lower Australian dollar, continuing demand for services exports and the expansion of production in the mining sector.

The recovery in growth over the next couple of years reflects policy settings including personal income tax relief and an increase in spending on infrastructure across all levels of government, as well as lower interest rates.

The drag from the unwinding of the mining investment boom has receded over the past few years, and mining investment is expected to grow for the first time in seven years in 2019-20. A persistent recovery in the established housing market should also support consumption and dwelling investment. However, lower farm production and exports resulting from the drought are expected to detract from growth in 2019-20.

Table 1.2: Major economic parameters^(a)

	Outcomes	Forecasts		Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
Real GDP	2.0	2 1/4	2 3/4	3	3
Employment	2.5	1 3/4	1 3/4	1 1/2	1 1/2
Unemployment rate	5.2	5 1/4	5 1/4	5	5
Consumer price index	1.6	2	2 1/4	2 1/2	2 1/2
Wage price index	2.3	2 1/2	2 1/2	2 3/4	3
Nominal GDP	5.3	3 1/4	2 1/4	4 3/4	4 3/4

(a) Year-average growth unless otherwise stated. From 2018-19 to 2020-21, 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.

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Nominal GDP is forecast to grow by 3¼ per cent in 2019-20, the same as forecast at PEFO. Nominal GDP growth in 2020-21 has been downgraded by 1½ percentage points to 2¼ per cent, largely reflecting the assumed decline in iron ore prices.

Global economic momentum weakened in 2019. This reflects the direct impact of trade tensions on global trade flows and supply chains in East Asia. But it also increasingly comes from global uncertainty, which appears to be weighing on business confidence and investment intentions. Global growth is expected to be 3 per cent in 2019 – the weakest growth since the global financial crisis – and 3¼ per cent in 2020. Major trading partner growth is forecast to be 3½ per cent in 2019 and 3¾ per cent in 2020.

The Government's priorities

The Government is continuing to implement its economic plan, including taking a disciplined approach to managing the budget, prioritising new spending which supports Australia's economy and guaranteeing the essential services on which Australians rely. The 2019-20 MYEFO includes substantial funding to:

- accelerate transport infrastructure projects
- increase support for drought-affected communities
- ensure quality and safety in aged care while the Royal Commission continues its work.

A stronger and more productive economy

Accelerating and creating new road and rail projects

The Government has worked with the states and territories to identify transport infrastructure projects where delivery could be accelerated in order for the benefits to commuters, freight, and safety to be realised sooner. As a result of bringing forward investments and funding for new projects, the Government is investing an additional \$4.2 billion over the forward estimates, as part of the Australian Government's total transport infrastructure investment of \$100 billion over the next ten years. Regional areas will receive over half of this package.

There are currently 130 major projects under construction funded by the Australian Government. These projects are expected to support 85,000 direct and indirect jobs over their lifetimes. The projects are improving road safety, addressing congestion in our cities, and better connecting people and places.

The Government's accelerated infrastructure investments and additional funding covers all states and territories:

- \$571 million for New South Wales to improve safety and efficiency for the Pacific, Newell, and Princes Highways.
- \$514 million for Victoria including immediate funding for the North East Link, Stage 2 of the Monash Freeway upgrade, and allowing for the completion of the Echuca-Moama Bridge in mid-2021.
- \$1.5 billion for Queensland including upgrades to the M1, Warrego, Cunningham, and Bruce Highways, the Gold Coast Light Rail Stage 3A, and the North Coast rail line. The Australian and Queensland Governments have also reached agreement on the delivery of the Melbourne to Brisbane Inland Rail.
- \$868 million for Western Australia including the early construction of the Bunbury Outer Ring Road, Albany Ring Road, Tonkin Highway Gap, and upgrades to the Karratha to Tom Price Corridor.
- \$327 million for South Australia, including the completion of the Darlington Upgrade and Flinders Link, and commencement of works on the Rural Roads Safety Package, the Victor Harbour Road Duplication, and the Eyre Highway.
- \$173 million for Tasmania including funding for the Port of Burnie shiploader and upgrades to the Bass and Midland Highways.
- \$147 million for the Northern Territory including upgrades on the Alice Springs to Darwin corridor, including the Mango Industry Road upgrades in Litchfield, and the Adelaide River to Wadeye Road corridors.
- \$30 million for the Australian Capital Territory to accelerate the Monaro Highway upgrades, including the intersection with Lanyon Drive.

Improving water infrastructure

The Australian and New South Wales Governments have committed to deliver a \$1 billion water infrastructure package for rural and regional communities, involving a \$650 million upgrade of Wyangala Dam in the Central West of New South Wales and a \$484 million new Dungowan Dam near Tamworth. The projects are part of the Government's plan for improving regional water security through water infrastructure led by the newly established National Water Grid Authority. The Authority is helping shape national water infrastructure policy and bringing together world-best science to identify and plan the next generation of water infrastructure that will support the growth of primary industries, build drought resilience, and meet the needs of a growing population.

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The Government's investments in water infrastructure are being delivered by the National Water Infrastructure Development Fund and the National Water Infrastructure Loan Facility.

Deregulation for Australian business

The Government is tackling regulatory congestion and helping businesses to invest and create jobs.

The next wave of deregulation reform includes making it easier to export more Australian food, streamlining major project approval processes, helping small businesses employ more Australians, and creating a one-stop shop for business to update, manage, and maintain their business registry data in one location.

The Government is establishing a new consolidated online checklist that guides small and micro-businesses through the steps of engaging their first employee. The Government is modernising Australia's business registers to make it easier and faster for businesses to interact with government (for example, replacing paper forms with digital processes), saving them time and money. The Government is also building a digital platform for environmental assessments and approvals to get major projects up and running sooner, partnering with the Western Australian Government as a first step toward a consistent nationwide process.

A modern export documents platform will replace the existing paper-based processes with a new online system to reduce the time, cost, and risks associated with exporting, making it easier for small and medium-sized enterprises to grow their exports. The Government is also expanding the Trusted Trader Program and Known Consignor Scheme to expedite the flow of cargo.

Supporting small businesses and first home buyers

The recently announced Australian Business Growth Fund will have \$540 million to make equity investments in small and medium-sized businesses, filling a gap in the financing market. This will complement the recently legislated \$2 billion Australian Business Securitisation Fund, which will boost lending to small business.

The First Home Loan Deposit Scheme will enable first home buyers to purchase a home with a deposit of as little as 5 per cent, allowing them to get into the market sooner. The Scheme will support up to 10,000 guarantees for eligible first home buyers each financial year. The Scheme will commence from 1 January 2020.

Guaranteeing services and strengthening communities

Supporting farmers and their communities

The Australian Government is providing significant assistance and concessional loans to those affected by drought with almost \$1.3 billion in additional support committed since the PEFO.

The Government's actions will support those directly affected by the drought. This includes the Farm Household Allowance, Rural Financial Counselling Service, and the Drought Community Support Initiative. The Government has also provided \$29.4 million for mental health and wellbeing support and two-year interest-free Drought Loans for farmers.

The Government is supporting the wider communities affected by drought through boosting economic activity and supporting jobs. This has included more than \$300 million for the Drought Communities Programme to help eligible councils to complete local capital works and drought relief projects. The Government is also redirecting \$200 million from the Building Better Regions Fund into drought-affected communities and funding an extra \$138.9 million in Roads to Recovery in 2020 for 128 Local Government Areas impacted by drought. The Government is also supporting small businesses in drought-affected communities with two-year interest-free loans to support cash flow for viable businesses.

The Government is enhancing long-term resilience and preparedness so that farm businesses and rural communities can better withstand future drought periods. This includes the \$5 billion Future Drought Fund, the National Water Infrastructure Development Fund, and the National Water Infrastructure Loan Facility.

Quality and safety in aged care

The Government will provide \$623.9 million over four years from 2019-20 to respond to the Interim Report of the Royal Commission into Aged Care Quality and Safety, and to build on the Government's recent aged care reforms to improve standards, oversight, funding, and transparency in the care of older Australians. This includes:

- \$496.3 million for the release of an additional 10,000 home care packages
- \$25.5 million to improve medication management and reduce the use of medicines as a chemical restraint for older Australians living in residential aged care facilities and at home
- \$10 million for additional dementia training and support for aged care workers and providers
- \$4.7 million for a survey of younger people in aged care to support new targets to reduce the number of younger people in residential aged care.

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This is in addition to the Government's record funding for older Australians of \$21.4 billion in 2019-20, growing to an estimated \$25.4 billion in 2022-23, up from \$13.3 billion in 2012-13.

Supporting veterans

The Government is committed to delivering services and support for veterans and their families, including initiatives to support veterans' mental health and commemorating the service and sacrifice of veterans and their families. As part of these initiatives, the Government is providing \$4 million to Open Arms – Veterans' Families Counselling to collaborate with the Returned and Services League in delivering a national program of mental health training to volunteers to recognise people at risk and offer intervention and support.

The Government is also providing \$30 million towards a network of six new Veterans' Wellbeing Centres in Townsville, Perth, Adelaide, Darwin, Nowra, and Wodonga to bring together key services for veterans and their families.

Delivering more affordable and reliable energy

The Government is delivering on its plan for a fairer, more affordable, reliable energy system.

The Government has legislated strong new powers to respond to electricity market misconduct. The laws will ensure that electricity retailers pass on reductions in wholesale electricity prices to consumers and make it easier for smaller energy businesses and new entrants.

The Government is establishing a \$1 billion Grid Reliability Fund, administered by the Clean Energy Finance Corporation, as a dedicated funding source for energy generation, storage, transmission, and distribution infrastructure and grid stabilising technologies.

The Government is supporting the acceleration of transmission projects to increase the supply of electricity to consumers. In partnership with state governments, the Government is jointly underwriting early works to upgrade an electricity interconnector between NSW and Queensland, and the HumeLink transmission line which carries power from the Snowy to Sydney, Newcastle, and Wollongong. The Government is also negotiating to support the KerangLink transmission line which carries power from the Snowy to Melbourne. These transmission lines will unlock the benefits of Snowy Hydro's dispatchable power and underpin reliability as ageing coal generators exit the system.

Stepping up Australia's engagement in the Pacific

Loan to Papua New Guinea

Australia has signed an agreement with Papua New Guinea (PNG) to provide a loan of US\$300 million through Export Finance Australia in response to a direct request from

the Government of PNG to help it deliver long-term economic reform. The Australian and PNG Governments are working closely with the International Monetary Fund, the World Bank, and the Asian Development Bank to ensure that this loan has maximum impact on PNG's social and economic development.

Emerging Markets Impact Investment Fund

The Government will provide \$40 million from existing Official Development Assistance (ODA) funding over a 10-year period from 2020-21 to establish the Emerging Markets Impact Investment Fund. This pilot program will test the cost effectiveness, strategic value, and impact of a new approach to deliver ODA, including a range of non-grant financing instruments (loans, equity, and guarantees) to draw in private capital to co-invest in small and medium-sized enterprises in the Indo-Pacific.

Australian Infrastructure Financing Facility for the Pacific

The \$2 billion Australian Infrastructure Financing Facility for the Pacific will use grant funding combined with loans to support the development of high priority infrastructure in Pacific island countries and Timor-Leste. The Facility is consulting across the region and is currently assessing a substantial pipeline of potential projects.