PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK

OVERVIEW

The Australian economy is expected to grow by 2½ per cent in 2013-14 and 3 per cent in 2014-15. There is, however, uncertainty surrounding the global outlook, and the economy's transition to new sources of growth may not occur as smoothly as forecast.

The underlying cash balance is estimated to be in deficit in 2013-14 and 2014-15 and projected to remain in deficit in 2015-16 and to return to surplus in 2016-17.

Table 1 provides estimates and projections of the underlying cash and fiscal balances for the period from 2013-14 to 2016-17.

Table 1: Summary of budget aggregates

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($b)(a)	**-30.1**	**-24.0**	**-4.7**	**4.2**
Per cent of GDP	-1.9	-1.5	-0.3	0.2
Fiscal balance ($b)	**-25.5**	**-22.1**	**1.8**	**7.8**
Per cent of GDP	-1.6	-1.3	0.1	0.4

(a) Excludes net Future Fund earnings.

ECONOMIC OUTLOOK

The Australian economy is forecast to grow by 2½ per cent in 2013-14 and 3 per cent in 2014-15. Against the backdrop of a still challenging global outlook, the Australian economy is expected to transition away from resource-investment led growth towards broader based growth, although this transition may not occur as smoothly as forecast.

Part of the transition is in the resources sector, with a shift from resources investment towards resources production and exports. This transition is proceeding broadly as expected, although the expected peak in investment is lower than at Budget, with the sector having become increasingly cautious in the allocation of capital. This follows increased uncertainty about global growth prospects, particularly in China and India, and rises in domestic costs.

While the shift towards higher exports will support growth, the net contribution of the resources sector to real GDP growth will fall. A rebalancing of growth towards the non-resource sectors is needed to deliver sustained economic growth. While this transition has commenced, it is now expected to take longer than at Budget. Still, sustained low interest rates and the lower Australian dollar are expected to underpin a return to around trend growth in 2014-15.

The outlook for the global economy remains challenging with growth expected to remain well below trend at 3 per cent in 2013. Strengthening activity in Japan and encouraging prospects for the United States are being offset by the ongoing recession and crisis in the euro area and moderating growth in emerging economies, including China and India. Nevertheless, global growth is expected to rise over the forecast period, underpinned by improving prospects in the advanced economies and solid growth in emerging Asia.

The terms of trade are expected to decline by 5¾ per cent in 2013-14 and 3¾ per cent in 2014-15, returning them to around their 2009-10 level (Box 1). The forecast decline in the terms of trade, alongside easing wage growth, is expected to lead to another two years of below average nominal GDP growth, of 3¾ per cent in 2013-14 and 4½ per cent in 2014-15.

Employment growth is expected to be below trend at 1 per cent through the year to the June quarter 2014, before rising to 1½ per cent through the year to the June quarter 2015 in line with gradually improving economic conditions. The unemployment rate is expected to increase from 5.6 per cent in the June quarter 2013 to 6¼ per cent in the June quarter 2014, and stabilise at that rate through to the June quarter 2015. Inflation is expected to ease and remain contained over the forecast period, reflecting ongoing spare capacity in the labour market and subdued wage growth.

There are both external and domestic risks to the outlook. The crisis in the euro area remains unresolved, and markets are anxious about how the eventual unwinding of US monetary policy will play out. There is also lingering uncertainty about the sustainability of Japan's recovery, while markets remain concerned about financial developments in China.

This uncertainty surrounding global growth prospects poses a risk to the terms of trade and nominal GDP forecasts. There is also a risk that the anticipated fall in resources investment following its peak could be sharper than expected, especially around the middle of the decade (Box 1). In addition, the transition to new sources of growth may not occur as smoothly as anticipated. Unexpected global or domestic developments could also generate further sharp movements in the exchange rate.

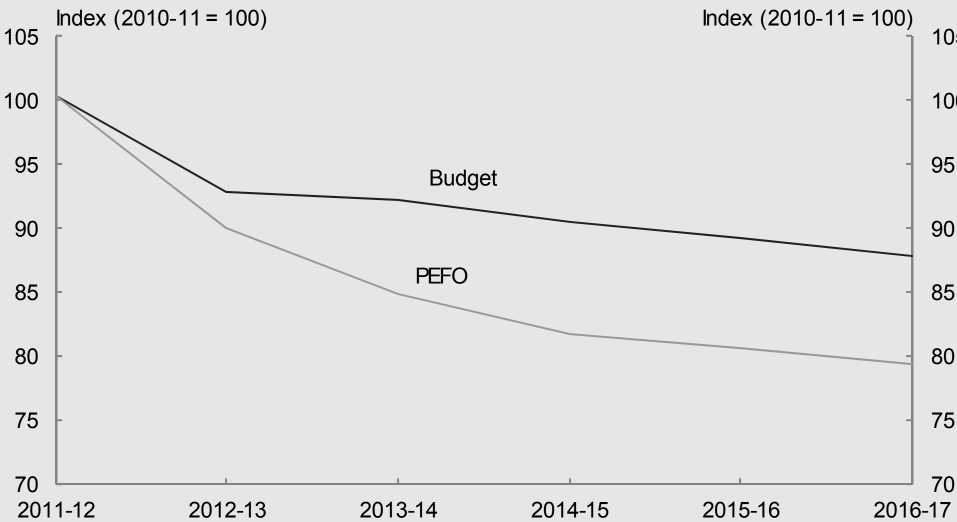
Box 1: Commodity prices, the terms of trade and resources investment

Over the past decade, strong growth in China and other emerging market economies generated a huge increase in the demand for energy and steel. Australia benefited from these developments, initially in the form of higher prices for resource exports, and later from the activity generated by the investment in new productive capacity. The next stage of the resources boom is upon us, as the construction of major projects is completed and the projects move into the production phase.

Forecasters, in both the public and private sectors, and both here and overseas, have found it difficult to consistently identify the timing and pace of these developments. As commodity prices were rising, forecasters were surprised on the upside, and as prices have fallen from their peak in 2011, the speed of the decline has been more rapid than many expected.

A combination of factors has driven a further downward revision to forecast commodity prices and the terms of trade since the 2013-14 Budget (Chart A). In particular, growth in China is expected to be more moderate and less commodity-intensive, in part due to a new policy approach adopted by Chinese authorities. The implications of these revisions for export earnings have, in part, been offset by the lower Australian dollar.

Chart A: Terms of trade



Source: ABS cat. no. 5206.0 and Treasury.

Box 1: Commodity prices, the terms of trade and resources investment (continued)

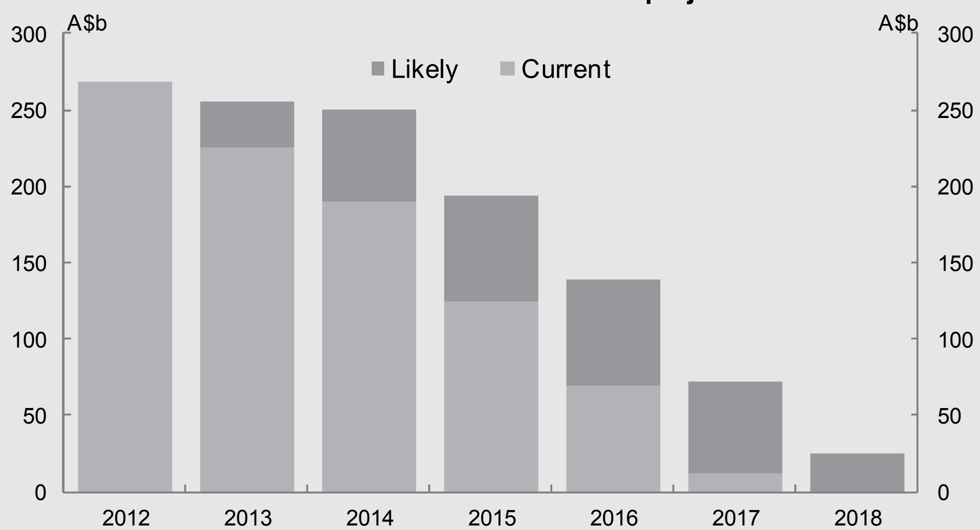
As always, there remains significant uncertainty around the profile of the terms of trade, in both the near and medium term. Commodity prices are inherently volatile and unexpected changes to the global demand or supply of commodities can have a significant impact on world commodity prices in either direction. What is important to recognise, though, is that while the terms of trade are in decline, the level at which they might settle, and at what point in the future, continues to be highly uncertain.

The volatility in commodity prices has also had a significant impact on the outlook for investment in the resources sector. Following the sharp falls in commodity prices in the middle of 2012, firms looked to reduce their capital spending, in some cases by delaying or cancelling decisions on projects under consideration and in other cases by containing costs and reducing investment in new capital.

There remains a sizeable amount of work in the pipeline yet to be done, in particular on LNG projects, although investment in iron ore and coal projects has passed its peak. While resources investment is expected to remain elevated over the next year, construction is expected to slow significantly as these projects move towards completion.

The latest update of the outlook for resource projects from the Bureau of Resource and Energy Economics (BREE) released in May demonstrates the magnitude of the transition likely to occur over the next half-decade, although the timing of this transition remains highly uncertain (Chart B). Investment could also fall more sharply than expected, particularly if future project commencements (those categorised by BREE as 'likely') fail to materialise.

Chart B: Outlook for resources projects



Source: Bureau of Resources and Energy Economics.

Table 2 presents the major economic parameters used in preparing the 2013 PEFO. Detailed forecasts of the economy are prepared for the budget year and the subsequent year. As always, there is a degree of uncertainty about the forecasts — this is discussed in Box 2.

Table 2: Major economic parameters[(a)]

	Forecasts		Projections	
	2013-14	2014-15	2015-16	2016-17
Real GDP	2 1/2	3	3	3
Employment	1	1 1/2	1 1/2	1 1/2
Unemployment rate	6 1/4	6 1/4	5	5
Consumer Price Index	2 1/2	2	2 1/2	2 1/2
Nominal GDP	3 3/4	4 1/2	5 1/4	5 1/4
Terms of trade	-5 3/4	-3 3/4	-1 1/2	-1 1/2

(a) Real GDP, nominal GDP and the terms of trade are year-average growth. Employment and CPI are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter.

Source: ABS cat. no. 5206.0, 6202.0, 6345.0 and Treasury.

Note: The PEFO and the Economic Statement are based on the same technical assumptions, other than for the exchange rate which has been updated in line with recent market movements — a trade weighted index of 70 and a United States dollar exchange rate of around 91 US cents.

Beyond the forecast period, there is less information on which to prepare detailed forecasts, so Australian budgets and other economic statements have tended to rely on projections of high-level economic aggregates to underpin budget estimates of receipts and payments. Since the introduction of the Charter in 1998, PEFO documents have used broadly similar projection methodologies (see Box 3).

Box 2: Uncertainty around the GDP forecasts

The degree of uncertainty around forecasts can be estimated based on past forecast errors and presented using confidence intervals. Similar approaches for estimating uncertainty have been adopted by a number of monetary and fiscal authorities.

For GDP forecasts, confidence intervals could be presented around forecasts of annual growth rates or average annualised growth rates. While both measures have merit, providing a reasonable forecast of the level of GDP is important for fiscal variables. The average annualised growth rate is a better summary statistic, as it reflects cumulative growth. For a hypothetical example, if GDP is forecast to grow by 2 per cent in one year and 5 per cent in the next, the level of GDP will be forecast to be roughly 7 per cent higher after two years. This is more effectively summarised by the 3½ per cent average annualised growth rate over the two years than by the two separate annual growth rates.

Chart A presents PEFO forecasts and confidence intervals for average annualised real GDP growth. For example, average annualised real GDP growth over the two years 2011-12 to 2013-14 is expected to be 2¾ per cent, with the 70 per cent confidence interval over the two years from 2 to 3½ per cent. In other words, if forecast errors are similar to those in the past, there is a 70 per cent probability that the average annualised growth rate will lie in this range.[1]

The uncertainty around nominal GDP growth forecasts is larger, reflecting the compounding nature of two sources of uncertainty; the outlook for real GDP and the outlook for prices or the GDP deflator. The average annualised nominal GDP growth over the two years 2011-12 to 2013-14 is expected to be a little over 3 per cent, with the 70 per cent confidence interval over the two years from 1¾ to 4½ per cent (Chart B).

Table 3.5 of the Review of Treasury Macroeconomic and Revenue Forecasting suggests that the Reserve Bank of Australia's forecast accuracy for real GDP is similar to that of Treasury, implying that the uncertainty around its forecasts is similar to Treasury's. Also the UK Office of Budget Responsibility estimates of uncertainty for real GDP growth, as reported in its March 2013 Economic and Fiscal Outlook, seem no smaller than those of the Treasury.

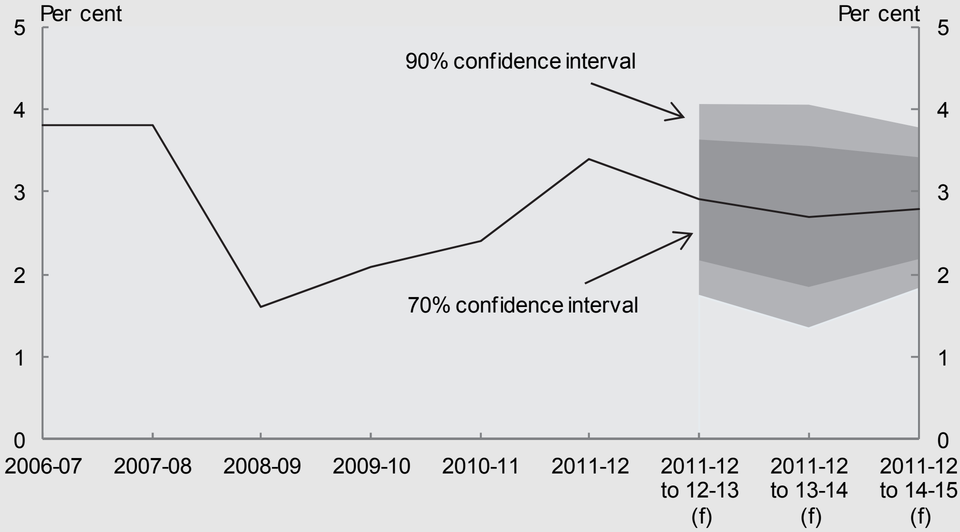
The Review of Treasury Macroeconomic and Revenue Forecasting found that Treasury's forecasts of GDP deflator growth are less accurate than those for real GDP growth. A major contributor to this is the difficulty in forecasting commodity prices and the terms of trade. The sensitivity of key components of receipts and payments to a 1 per cent fall in nominal GDP owing to a fall in the terms of trade is presented in Appendix D.

---

1 The confidence intervals in this box are derived from forecast errors based on budget forecasts from the 1998-99 Budget onwards, with outcomes based on March 2013 National Accounts data. The results presented assume that budget forecast errors are normally distributed with an average of zero. As the PEFO is based on more up to date information than the 2013-14 Budget, the confidence intervals shown likely overstate the degree of uncertainty, particularly for 2012-13.

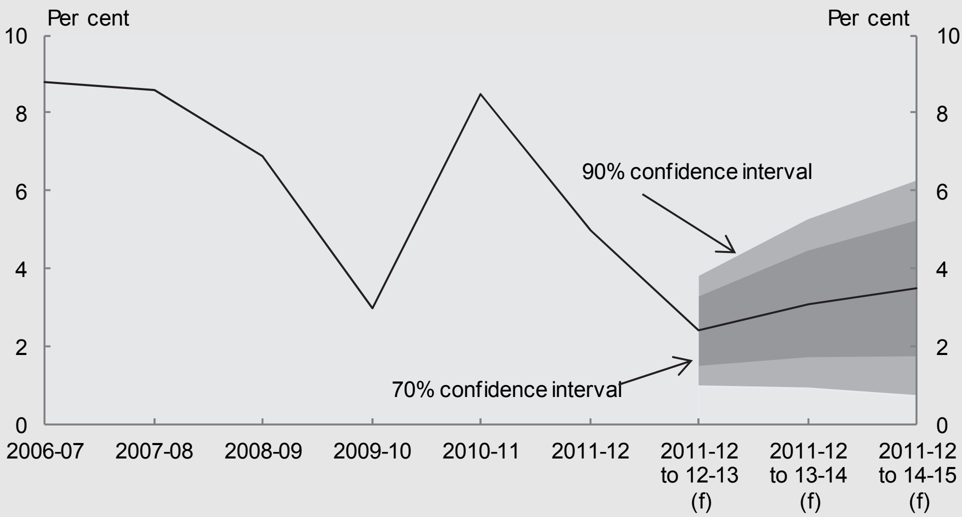
Box 2: Uncertainty around the GDP forecasts (continued)

Chart A: Real GDP growth rate



Note: The central line shows the outcomes and PEFO forecasts. Annual growth is reported for the outcomes. Annualised average growth rates from 2011-12 are reported from 2012-13 onwards. Confidence intervals are based on the root mean square error of budget percentage growth rate forecasts. (f) are forecasts. Before the 2009-10 Budget, a projection rather than a forecast was made for the year after the budget year. Reporting the average annualised growth rate moderates the impact of errors over longer horizons.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Chart B: Nominal GDP growth rate



Note: See note to Chart A.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Box 3: Economic forecasts and projections

The Charter of Budget Honesty requires that the PEFO contains information on the economic and other assumptions that have been used to prepare the fiscal estimates for the current year and the following three financial years.

The economic assumptions presented in this PEFO consist of economic forecasts for 2013-14 and 2014-15 (the forecast period) and economic projections for 2015-16 and 2016-17 (the projection period).

The economic projections are based on medium-term assumptions for growth that are consistent with underlying historical trends in the economy and long-term factors such as demographic change. As a result, the methodology used to prepare the projections has changed a little over time.

Since the introduction of the Charter in 1998, the practice of presenting economic forecasts and projections has evolved. In the period 1998-2008, governments published forecasts for the Budget year and projections for the following three years. From the 2009-10 Budget, the Government has published forecasts for the Budget year and the following year, and projections for the last two years of the forward estimates.

Each PEFO has followed the practice adopted by government in its most recent fiscal report. Similarly, the economic projections in each PEFO have been prepared using the same methodology as in the most recent fiscal report tabled by government.

In 1998, projected GDP growth was 3½ per cent. This was revised down to 3¼ per cent in 2005 and to 3 per cent in 2006. These downward revisions were driven by the effect of population ageing on the aggregate participation rate, and lower projected productivity growth. Projected GDP growth has remained at 3 per cent since then, apart from a temporary change in 2009.[2]

On the labour market, unemployment rate projections were not published until the 2002-03 Budget. In that budget, the economic forecasts and projections were described as being consistent with the unemployment rate gradually falling from its then current level of 6.3 per cent to 5 per cent by 2006-07 — one year beyond the projection period — and remaining at that level thereafter (Budget Paper No. 5, *Intergenerational Report 2002-03*, p. 28). Since then, the assumption that the unemployment rate would settle at around 5 per cent in the projection period has been maintained, with the exception of the 2009-10 Budget (see footnote).

---

2 The 2009-10 Budget was prepared during the global financial crisis. Projected GDP growth was temporarily lifted to 4½ per cent to reflect the economy's recovery from the expected impact of the crisis. At the time, the unemployment rate was expected to reach 8½ per cent by the end of the forecast period and remain elevated throughout the projection period. These forecasts and projections of the unemployment rate were subsequently shown to be too high.

Box 3: Economic forecasts and projections (continued)

This has been the case whether the unemployment rate has been above, or below, 5 per cent in the forecast period. For example, in the 2007-08 Mid-Year Economic and Fiscal Outlook (which underpinned the 2007 PEFO) the unemployment rate at the end of the forecast period was 4½ per cent, with the projection year assuming an unemployment rate of 5 per cent. In this PEFO, the unemployment rate is forecast to be 6¼ per cent in the last forecast year, with the first projection year assuming an unemployment rate of 5 per cent.

An alternative projection assumption would recognise that, with unemployment at 6¼ per cent, the economy is operating with an output gap. Gradually narrowing this output gap over the projection period generates above-trend real GDP growth and a gradually falling unemployment rate (Table A). This would be similar to the budget projection methodology used in the early 2000s, when the unemployment rate was considered to be above its longer-term sustainable level.

Table A: Alternative projection assumption[(a)]

	Forecasts		Projections			
			PEFO		Alternative	
	2013-14	2014-15	2015-16	2016-17	2015-16	2016-17
Real GDP	2 1/2	3	3	3	3 1/4	3 1/4
Nominal GDP	3 3/4	4 1/2	5 1/4	5 1/4	5 1/2	5 1/2
Unemployment rate	6 1/4	6 1/4	5	5	6	5 3/4

(a) Real and nominal GDP are year-average growth. The unemployment rate is the rate for the June quarter.
Source: ABS cat. no. 5206.0, 6202.0 and Treasury.

Under this alternative projection assumption, the unemployment rate is assumed to fall gradually from 6¼ per cent at the end of the forecast period to 5¾ per cent at the end of the two-year projection period, adding around $1.5 billion to estimated payments in 2015-16 and $1.7 billion in 2016-17, overwhelmingly from higher benefits paid to unemployed persons.[3] In contrast, the stronger GDP and employment growth adds around $0.7 billion to expected tax receipts net of GST in 2015-16 and $2.1 billion in 2016-17.

FISCAL OUTLOOK

An underlying cash deficit of $30.1 billion (1.9 per cent of GDP) is estimated for 2013-14. The fiscal outlook is for a return to budget surplus in 2016-17.

3 There are lags between changes in the unemployment rate and the number of unemployment benefit recipients. The higher cost in 2016-17 is a consequence of these lags.

Table 3 provides a summary of the major budget aggregates.

Table 3: Australian Government general government sector budget aggregates

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b
Receipts	**369.5**	**390.3**	**423.4**	**450.8**
Per cent of GDP	23.6	23.9	24.6	24.8
Payments(a)	**396.6**	**411.3**	**424.9**	**443.2**
Per cent of GDP	25.3	25.1	24.6	24.4
Net Future Fund earnings	2.9	3.0	3.2	3.4
Underlying cash balance(b)	**-30.1**	**-24.0**	**-4.7**	**4.2**
Per cent of GDP	-1.9	-1.5	-0.3	0.2
Revenue	**379.9**	**397.7**	**433.3**	**464.6**
Per cent of GDP	24.2	24.3	25.1	25.6
Expenses	**401.5**	**416.0**	**430.9**	**454.5**
Per cent of GDP	25.6	25.4	25.0	25.0
Net operating balance	-21.5	-18.2	2.4	10.1
Net capital investment	4.0	3.8	0.5	2.3
Fiscal balance	**-25.5**	**-22.1**	**1.8**	**7.8**
Per cent of GDP	-1.6	-1.3	0.1	0.4
Memorandum item:				
Headline cash balance	-37.2	-33.6	-14.0	-5.9

(a) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(b) Excludes net Future Fund earnings.

Underlying cash balance estimates

Table 4 provides a reconciliation of the underlying cash balance estimates from the 2013-14 Budget to the 2013 Economic Statement and the 2013 PEFO.

Table 4: Reconciliation of 2013-14 Budget, 2013 Economic Statement and 2013 PEFO underlying cash balance estimates

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
2013-14 Budget underlying cash balance(a)	**-18,043**	**-10,888**	**849**	**6,591**
Per cent of GDP	-1.1	-0.6	0.0	0.4
Changes from 2013-14 Budget to 2013 ES				
Effect of policy decisions(b)	-373	-1,607	3,364	6,811
Effect of parameter and other variations	-11,727	-11,477	-8,921	-9,374
Total variations	**-12,099**	**-13,084**	**-5,557**	**-2,563**
2013 ES underlying cash balance(a)	**-30,142**	**-23,972**	**-4,708**	**4,027**
Per cent of GDP	-1.9	-1.5	-0.3	0.2
Changes from 2013 ES to 2013 PEFO				
Effect of policy decisions(b)(c)				
Receipts	*0*	*0*	*0*	*0*
Payments	*1*	*56*	*49*	*-104*
Total policy decisions impact on underlying cash balance	-1	-56	-49	104
Effect of parameter and other variations(c)				
Receipts	*87*	*145*	*131*	*66*
Payments	*85*	*98*	*37*	*-1*
Total parameter and other variations impact on underlying cash balance	2	47	94	67
2013 PEFO underlying cash balance(a)	**-30,142**	**-23,981**	**-4,662**	**4,199**
Per cent of GDP	-1.9	-1.5	-0.3	0.2

(a) Excludes net Future Fund earnings.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(c) A positive number for receipts indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.

Between the 2013-14 Budget and the 2013 Economic Statement, the change in parameter and other variations resulted in a negative impact on the underlying cash balance of $41.5 billion over the four years to 2016-17, including $11.7 billion in 2013-14. This was largely as a result of write-downs in tax receipts.

Between the 2013-14 Budget and the 2013 Economic Statement, tax receipts were revised down due to lower nominal GDP expectations, including lower forecasts of commodity prices, wages and unincorporated business income. Estimated tax receipts were revised down by $7.8 billion in 2013-14 and $8.7 billion in 2014-15. Projected tax receipts in 2015-16 and 2016-17 were revised down by $8.5 billion and $8.3 billion, respectively.

Since the 2013 Economic Statement, parameter and other variations have resulted in an increase to the underlying cash balance of $2 million in 2013-14 and of $210 million over the four years to 2016-17.

Changes to the underlying cash balance as a result of parameter and other variations since the 2013 Economic Statement primarily reflect updated assumptions of a slightly lower exchange rate, which has an impact on both payments and receipts; a higher European carbon price, which has resulted in minor revisions to tax receipts; and revised dividend estimates for government business enterprises based on updated corporate plans, which have resulted in minor adjustments to non-tax receipts.

The exchange rate revision affects payments (primarily related to defence procurement), as well as receipts relating to resource rent taxes, company tax and excise and customs duty. Both the exchange rate and European carbon price revisions affect receipts from the carbon pricing mechanism. In total, tax receipts have been revised up by $70 million in 2013-14, $155 million in 2014-15, $190 million in 2015-16 and $175 million in 2016-17.

Policy decisions taken after the 2013-14 Budget and up to the 2013 Economic Statement had a negative impact of $373 million on the underlying cash balance in 2013-14, but a positive impact of $8.2 billion over the four years to 2016-17.

Further information on variations and decisions taken after the 2013-14 Budget and up to the 2013 Economic Statement can be found in the 2013 Economic Statement.

Policy decisions taken since the 2013 Economic Statement have decreased the underlying cash balance by around $1 million in 2013-14 and are broadly offset over the forward estimates.

Changes to the underlying cash balance as a result of policy decisions since the 2013 Economic Statement include funding for Priority Health Initiatives ($266 million over the four years to 2016-17) and a contribution to the redevelopment of the Royal Victorian Eye and Ear Hospital ($50 million in each of 2014-15 and 2015-16). These policy decisions have been offset over the four years to 2016-17, primarily reflecting the reversal of a number of decisions previously taken but not yet announced ($331 million over the four years to 2016-17), and the lower than estimated costs of finalising negotiations on the *Better Schools Plan* ($156 million over the four years to 2016-17).

Detail of all policy decisions not previously published up to the commencement of the caretaker period on 5 August 2013 is provided at Appendix B.

In line with normal practice, the forward estimates in the PEFO do not incorporate funding beyond 2013-14 for some items that are considered on a year-by-year basis, including defence operations overseas and any potential listings of new drugs recommended by the Pharmaceutical Benefits Advisory Committee. Payments to partly reimburse States and Territories for any future natural disasters under the Natural Disaster Relief and Recovery Arrangements are also not included in the forward estimates until any such disasters occur.

Table 5 shows cash receipts by type of revenue.

Table 5: Australian Government general government (cash) receipts

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Individuals' and other withholding taxes				
Gross income tax withholding	160,600	174,000	188,300	201,100
Gross other individuals	33,700	37,000	41,400	45,750
less: Refunds	27,500	28,300	30,100	31,400
Total individuals' and other withholding tax	166,800	182,700	199,600	215,450
Fringe benefits tax	4,160	4,580	4,840	5,120
Company tax	69,200	70,100	75,850	80,050
Superannuation fund taxes	7,620	9,090	11,600	13,090
Minerals resource rent tax(a)	850	1,100	1,550	2,450
Petroleum resource rent tax	2,410	2,470	2,580	2,700
Income taxation receipts	**251,040**	**270,040**	**296,020**	**318,860**
Goods and services tax	50,633	53,559	56,739	59,909
Wine equalisation tax	760	810	850	900
Luxury car tax	380	350	380	400
Excise and customs duty				
Petrol	5,850	5,750	5,850	5,950
Diesel	8,980	9,180	9,370	9,680
Other fuel products	3,800	3,620	3,690	3,750
Tobacco	8,320	9,110	10,050	10,930
Beer	2,390	2,420	2,560	2,720
Spirits	2,030	2,160	2,300	2,420
Other alcoholic beverages(b)	1,010	1,060	1,120	1,180
Other customs duty				
Textiles, clothing and footwear	730	580	420	450
Passenger motor vehicles	930	990	1,070	1,150
Other imports	1,610	1,680	1,800	1,940
less: Refunds and drawbacks	260	260	260	260
Total excise and customs duty receipts	35,390	36,290	37,970	39,910
Carbon pricing mechanism	6,475	2,870	2,745	4,050
Agricultural levies	461	451	458	464
Other taxes	2,971	3,135	3,500	3,618
Indirect taxation receipts	**97,070**	**97,466**	**102,641**	**109,251**
Taxation receipts	**348,110**	**367,506**	**398,661**	**428,111**
Sales of goods and services	8,686	8,519	8,691	8,852
Interest received	3,744	3,646	4,075	4,262
Dividends	2,748	2,463	2,679	2,695
Other non-taxation receipts	6,164	8,170	9,312	6,882
Non-taxation receipts	**21,342**	**22,799**	**24,758**	**22,691**
Total receipts	**369,452**	**390,305**	**423,419**	**450,802**
Memorandum:				
Total excise receipts	*26,520*	*27,040*	*28,250*	*29,480*
Total customs duty receipts	*8,870*	*9,250*	*9,720*	*10,430*
Capital gains tax(c)	*7,900*	*10,700*	*13,200*	*15,400*
Medicare and DisabilityCare Australia levy receipts	*9,960*	*10,470*	*14,480*	*15,190*

(a) Net receipts from the MRRT are expected to be $0.7 billion in 2013-14, $0.8 billion in 2014-15, $1.1 billion in 2015-16 and $1.8 billion in 2016-17 which represent the net receipt impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) Capital gains tax is part of other individuals, companies and superannuation fund taxes.

Contingency Reserve

The Contingency Reserve provision in the PEFO is $477 million in 2013-14, $2.9 billion in 2014-15, $2.3 billion in 2015-16 and $8.2 billion in 2016-17.

The largest component of this is the 'conservative bias allowance', which makes provision for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years. This allowance is unchanged from the 2013-14 Budget and is set at zero in 2013-14, ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in 2014-15 ($1.8 billion), 1 per cent of expenses in 2015-16 ($3.7 billion) and 2 per cent of expenses in 2016-17 ($7.8 billion).

The Contingency Reserve also includes provisions of $2.0 billion over four years to 2016-17 for a number of items including assumed continuation of some expiring National Partnerships; the effect of economic parameter revisions received late in the process; higher than estimated DisabilityCare Australia costs; negotiations with some State and Territory Governments regarding more efficient funding arrangements for veterans in public hospitals; and possible by-election and redistribution costs for the Australian Electoral Commission. These items remain in the Contingency Reserve as they remain under negotiation and/or there is some uncertainty as to their final cost and outcome.

The Contingency Reserve also contains a number of items that cannot be disclosed for commercial-in-confidence or national security reasons.

Fiscal balance estimates

The fiscal balance deficit is expected to be $25.5 billion (1.6 per cent of GDP) in 2013-14.

The fiscal balance is projected to return to surplus in 2015-16, which is a year earlier than the underlying cash balance. This results from the timing difference between when revenues and expenses are recognised on an accrual basis, and when cash receipts and payments are recognised.

Movements in accrual revenue and expenses over the forward estimates are broadly consistent with the movements in cash receipts and payments.

Table 6 provides a reconciliation of the fiscal balance estimates.

Table 6: Reconciliation of 2013-14 Budget, 2013 Economic Statement and 2013 PEFO fiscal balance estimates

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
2013-14 Budget fiscal balance	**-13,497**	**-6,255**	**5,955**	**10,819**
Per cent of GDP	-0.8	-0.4	0.3	0.6
Changes from 2013-14 Budget to 2013 ES				
Effect of policy decisions(a)	-747	-3,779	4,761	6,411
Effect of parameter and other variations	-11,308	-12,186	-8,936	-9,666
Total variations	**-12,055**	**-15,965**	**-4,175**	**-3,255**
2013 ES fiscal balance	**-25,553**	**-22,220**	**1,780**	**7,564**
Per cent of GDP	-1.6	-1.4	0.1	0.4
Changes from 2013 ES to 2013 PEFO				
Effect of policy decisions(a)(b)				
Revenue	0	0	0	0
Expenses	4	60	51	-102
Net capital investment	-3	-4	-2	-2
Total policy decisions impact on fiscal balance	-1	-56	-49	104
Effect of parameter and other variations(b)				
Revenue	46	219	171	100
Expenses	-30	-17	22	-57
Net capital investment	30	37	34	34
Total parameter and other variations impact on fiscal balance	46	198	116	123
2013 PEFO fiscal balance	**-25,508**	**-22,078**	**1,847**	**7,792**
Per cent of GDP	-1.6	-1.3	0.1	0.4

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(b) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

Net debt, net financial worth, net worth and net interest payments

In 2013-14, net debt for the Australian Government general government sector is estimated to be $184.0 billion (11.7 per cent of GDP). Net financial worth is estimated to be –$295.5 billion, and net worth is estimated to be –$181.9 billion.

Net interest payments are estimated to be $8.4 billion in 2013-14 (0.5 per cent of GDP). Interest payments largely relate to the public debt interest on government securities, based on the interest rates on the existing stock of Commonwealth Government Securities (CGS) and the prevailing market interest rates across the yield curve for future issuance of CGS. Assuming prevailing market yields, results in a weighted average yield of around 3.5 per cent for future issuance of Treasury Bonds in the forward estimates period.

Table 7 provides a summary of the Australian Government general government sector net worth, net financial worth, net debt and net interest payments.

Table 7: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b
Financial assets	260.8	279.2	305.1	341.1
Non-financial assets	113.6	116.8	119.0	120.5
Total assets	**374.4**	**396.0**	**424.1**	**461.6**
Total liabilities	**556.3**	**596.9**	**622.2**	**652.5**
Net worth	**-181.9**	**-200.9**	**-198.1**	**-190.9**
Net financial worth(a)	**-295.5**	**-317.7**	**-317.1**	**-311.4**
Per cent of GDP	-18.9	-19.4	-18.4	-17.1
Net debt(b)	**184.0**	**212.1**	**219.0**	**217.3**
Per cent of GDP	11.7	13.0	12.7	12.0
Net interest payments	**8.4**	**9.5**	**11.5**	**10.0**
Per cent of GDP	0.5	0.6	0.7	0.6

(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Commonwealth Government Securities

The Australian Government issues debt securities to the public in the form of Treasury Bonds, Treasury Indexed Bonds (TIBs) and Treasury Notes, collectively known as CGS. CGS are reported on the balance sheet in market value terms, consistent with the relevant accounting standards. The market value of CGS reflects prices in the secondary market, which are constantly changing with market conditions.

The face value of CGS on issue is the amount that the Government owes to investors, and is independent of fluctuations in market prices.[4] The face value of CGS on issue fluctuates depending on the issuance of new securities and maturities of securities outstanding. The 'peak' amount of CGS on issue in any given year will depend on the timing of receipts, payments and CGS maturities.

The *Commonwealth Inscribed Stock Act 1911* places a limit of $300 billion on the face value of CGS outstanding. Based on current estimates, CGS outstanding is expected to reach the limit within the 2013-14 financial year (around December 2013) and will remain around that level from December 2013 onwards. CGS on issue is expected to increase over the forward estimates.

Table 8 contains projections of the face value of CGS on issue subject to the legislative limit. It is important to note that there is a debt issuance strategy for the budget year only. Projections beyond the budget year are based on a set of technical assumptions and will vary significantly with changes to budget estimates and projections.

4 For TIBs, the final repayment amount paid to investors includes an additional amount owing to inflation accretion over the life of the security.

Table 8: Projected face value of Commonwealth Government Securities[(a)(b)]

	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b
End-of-year amount	290	330	350	370
Within-year peak(c)	300	350	370	Not available
Month of peak	*Dec-13*	*Apr-15*	*Apr-16*	*Not available*

(a) Data in this table are rounded to the nearest $10 billion.
(b) These figures exclude TIBs issued before July 2008 which are not subject to the legislative limit. $4.6 billion of TIBs are not subject to the legislative limit in 2013-14 and 2014-15, and following a maturity in August 2015, $2.5 billion of TIBs will not be subject to the limit in 2015-16 and 2016-17.
(c) The precise within-year timing of cash outlays and receipts are not known. Estimates of projected peaks of CGS on issue are therefore subject to considerable uncertainty.
Source: Australian Office of Financial Management.