

Budget 2016-17

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What I'll be talking about

- Global growth & risks
- Domestic growth & risks
- The other economic policy levers
- Looking at the Budget - some questions to keep in mind



The global economy

- A bumpy start to the year
- Growth still relatively soft
- Significant downside risks remain
- Policymakers continue to face some difficult questions



**Economy sound as China's
turmoil melts markets**

**China chaos may tighten
flight of capital to Aussie**

**Bad start flags
a hard year
but not a crisis**

ASX flirts with bear market as \$A falls under 70c

Consumer confidence knocked by negativity in global markets

China's great wall of worry

Brace for a year of muddling through

China's slowdown calls for some perspective

**Australian stocks plunge at open as
markets brace for more volatility**

**Calm urged
as market
plummets**

**Chinese
turmoil's
\$20bn hit
to budget**

**Wild markets stoke IMF
liquidity freeze fears**

China holds growth hostage

**Few tools left to fight
a China downturn**

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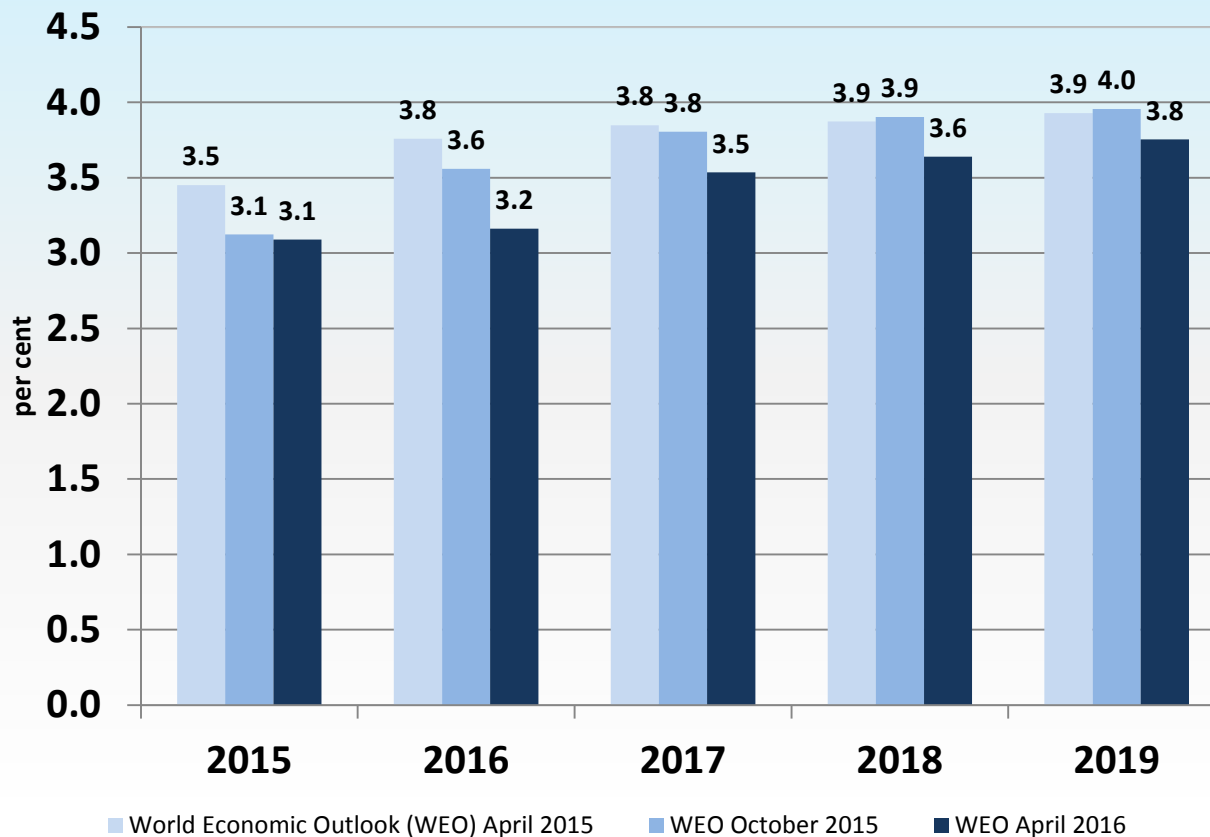
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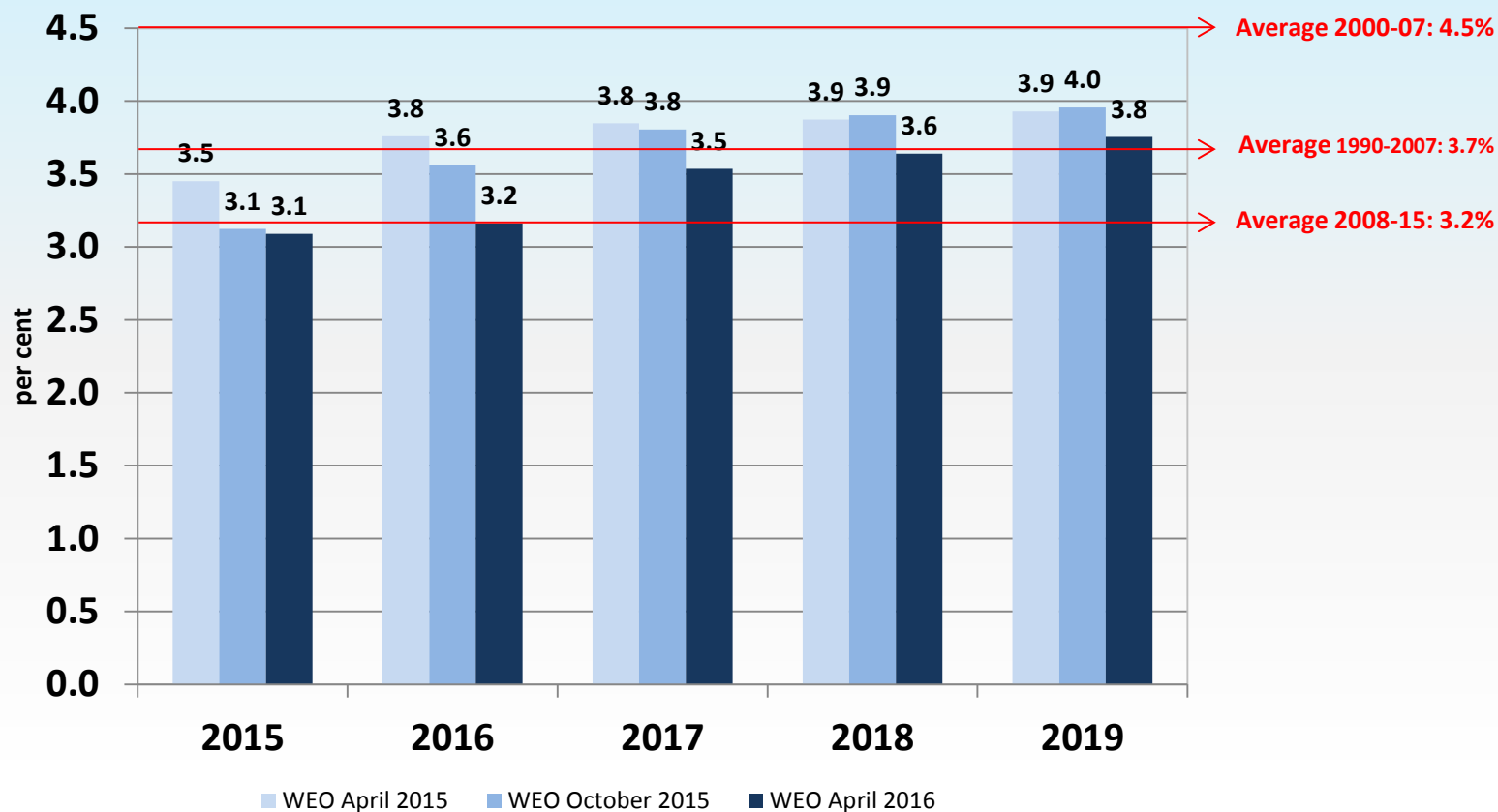
IMF: Global economic growth forecasts



Source: International Monetary Fund (IMF), [World Economic Outlook Database](#)



IMF: Global economic growth forecasts



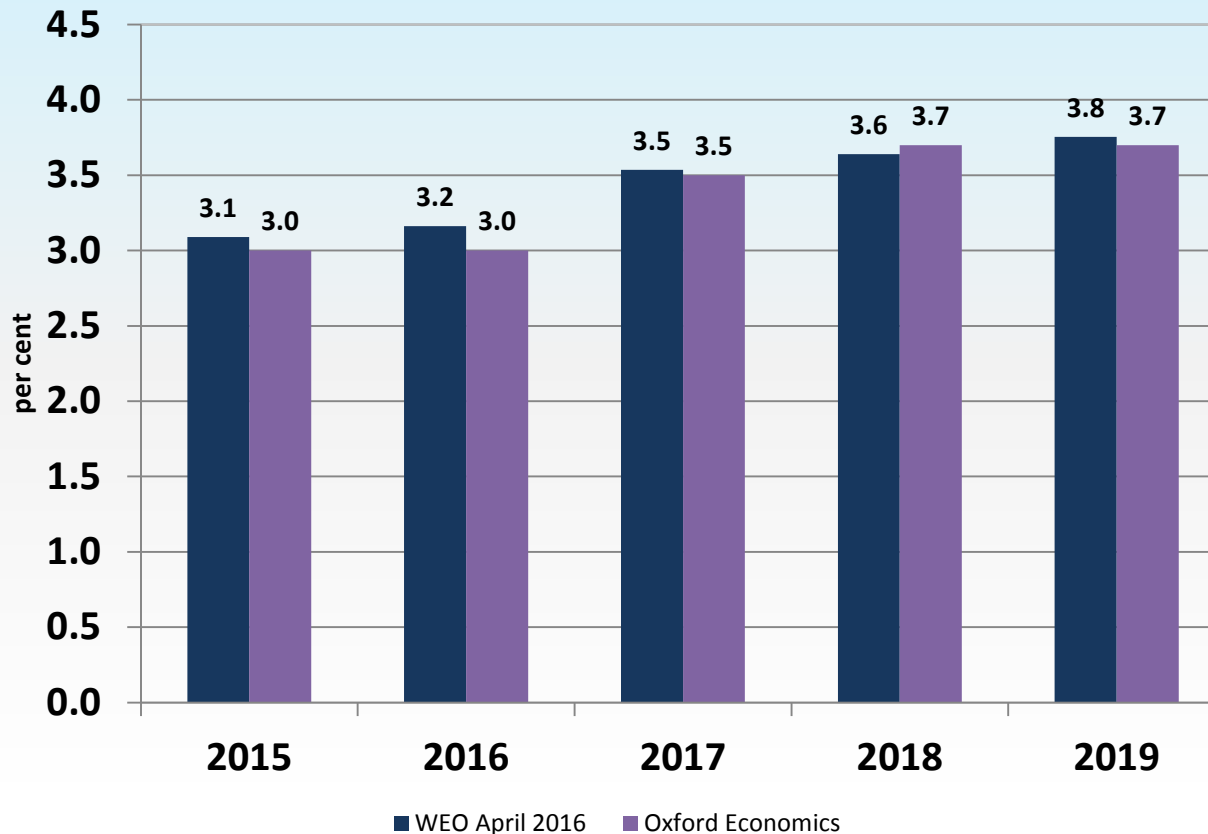
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IMF & Oxford Economics: Global economic growth forecasts



Source: International Monetary Fund (IMF), [World Economic Outlook Database](#); Oxford Economics, World Economic Prospects Monthly Review, April 2016.



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Downside risks

- Financial market volatility
- China – a sharper than forecast slowdown
- Emerging markets – financial stability risks
- Persistently slow growth
- Brexit – heightened uncertainty
- Geopolitical tensions



Looking ahead

The IMF's advice to the global community:

- Do more to support growth
 - Make the best use of all available policy instruments
 - Have regard for distributional issues – the social impact of economic policies
- Be prepared in case the downside risks materialise
 - Potential for policymakers to cooperate in developing contingency plans
 - Potential to strengthen the global financial safety net and regulatory regime



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The Australian economy

- A long period of unbroken economic growth
- The transition to broader-based growth has gained some traction
- Growth expected to firm gradually
- Downside risks remain
- Looking further out - challenges & opportunities

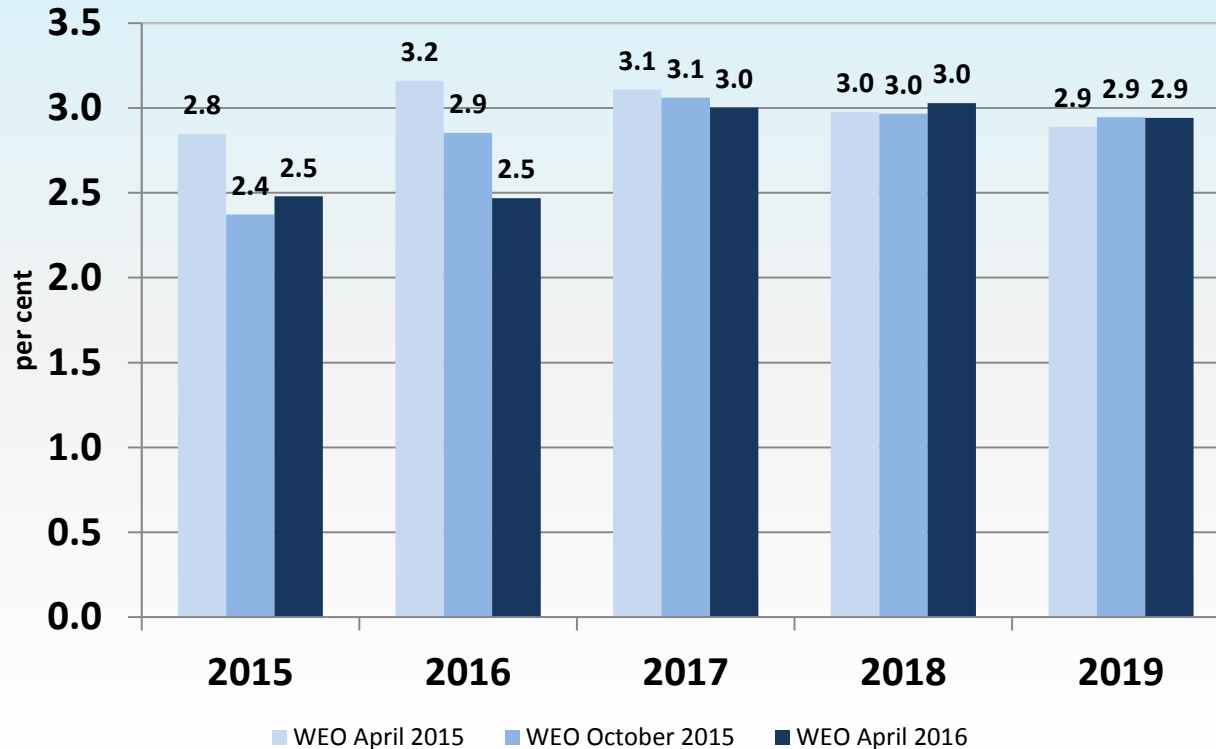


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IMF: Australia - economic growth forecasts



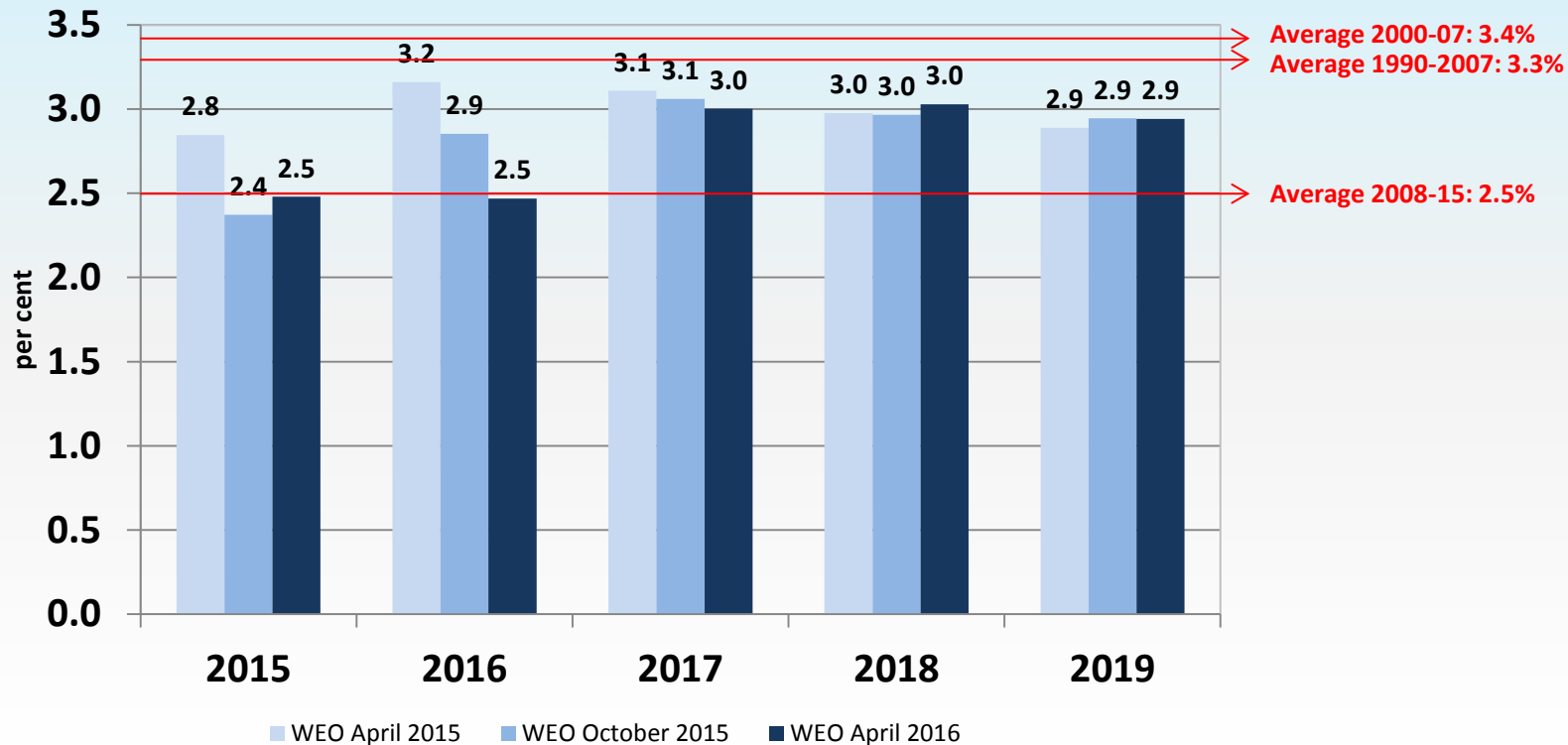
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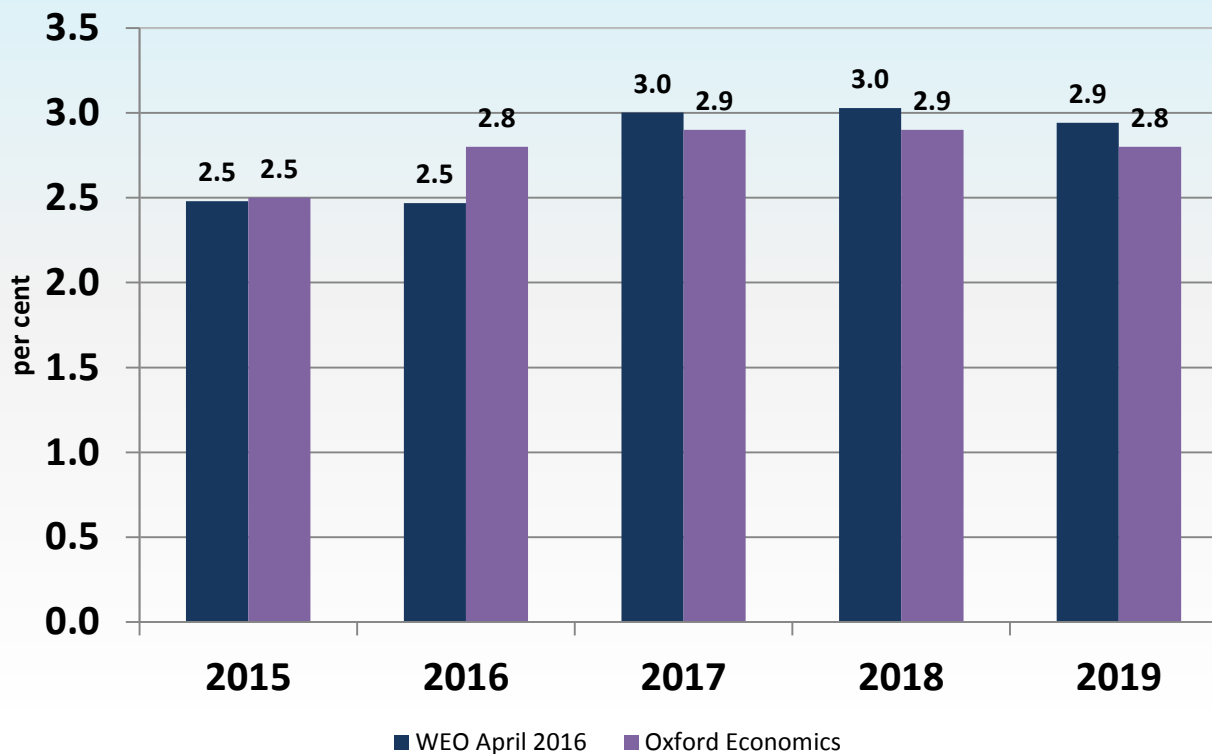
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IMF & Oxford Economics: Australia - economic growth forecasts



Source: International Monetary Fund (IMF), [World Economic Outlook Database](#); Oxford Economics, Country Report: Australia, 31 March 2016.

Downside risks

- China – a sharper than forecast slowdown
- Global financial volatility – risk of contagion
- A slower than expected pick-up in non-resource sector demand
- A sharp downturn in the housing market



The longer-term

- An ageing population
- Climate change
- Natural resource depletion
- Economic rise of Asia
- Changing global demand
- New knowledge & technologies



The other economic policy levers

Macroeconomic policy

Fiscal policy (The Budget)

Operates through changes in:

- the level and composition of government spending
- the level and types of taxes levied
- the level and form of government borrowing

Monetary policy

The RBA is responsible for monetary policy:

- monetary policy is implemented by changing the cash rate

Exchange Rate policy

Australia has a floating exchange rate:

- the value of the Australian dollar is determined by market forces

Microeconomic reform

Reforms to increase productivity & growth

- Sharpening incentives
- Enhancing capabilities
- Enhancing flexibility



Looking at the Budget



The narrative

- What is the overarching narrative?
- Does it align with Australia's current situation and outlook?
- Consistency over time?
- A convincing case for change?
- How might it affect confidence?
- Will it resonate with the broader community?

The measures

- What's new & what's not?
- Are the Budget measures consistent with the narrative?
- What's the quality of the individual measures?
- Do the numbers attached to the measures look right?
- A hard or easy sell?

The overall package

- What is the government trying to do?
- How ambitious is the Budget?
- What does the Budget actually deliver?
- What is the fiscal strategy?
- Does the Budget support growth?
- Who wins & who loses?
- What's the overall affect on community wellbeing? Now & in the longer-term?
- A hard or easy sell?

The numbers

- What are the 'headline' numbers?
- What are the underlying assumptions? Are they credible?
- What's driving change (parameters or policy measures)?
- What's lurking in the out-years or beyond?
- Is the fiscal position sustainable?

The risks

- What are the risks to the Budget?
- What's the overall balance of risk?
- Does the Budget's assessment of these risks align with what commentators are saying?

Unfinished business

- How much adjustment is still needed?
- Are there areas of spending or revenue that look unsustainable?
- Given the challenges Australia faces what are the likely future pressure points?

The Budget: context



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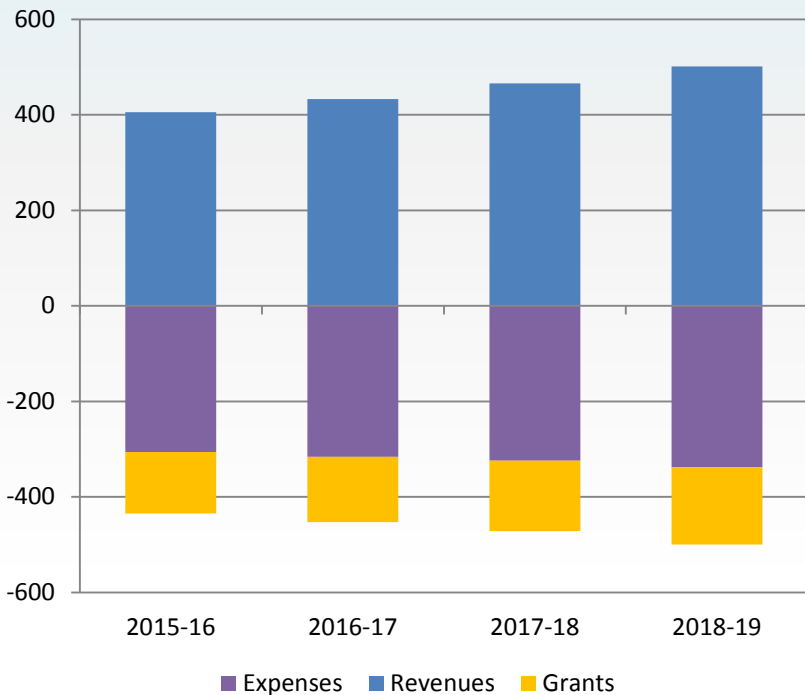
An earlier Budget

- Convention since 1994 to table the Budget ‘early’ and prior to the commencement of the financial year
 - Now generally the 2nd Tuesday in May
 - Removes ‘supply’ as an issue
 - Makes ‘Supply Bills’ unnecessary
- This year is already different!

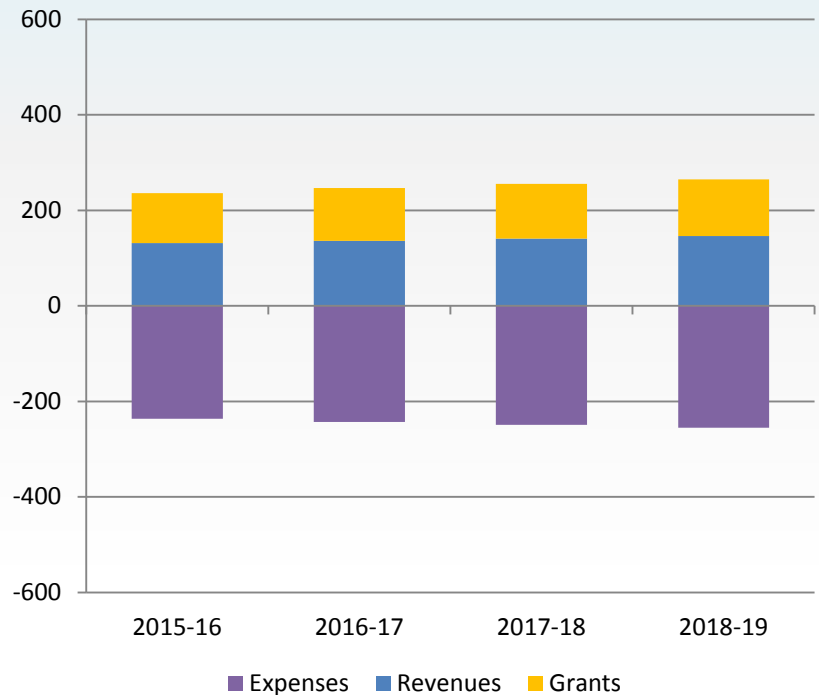


Vertical fiscal imbalance

**Commonwealth's
revenues, expenses and grants (\$'b)**



**States' and Territories'
revenues, expenses and grants (\$'b)**



The Budget: key concepts



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Consolidated Revenue Fund

- Established under section 81 of the *Constitution*

“All revenues or moneys raised or received by the Executive Government of the Commonwealth shall form one Consolidated Revenue Fund, to be appropriated for the purposes of the Commonwealth...”

- An appropriation by the Parliament is required before monies may be spent



Appropriations

- Annual appropriations
 - Appropriation Bill (No. 1)
 - Appropriation Bill (No. 2)
 - Appropriation (Parliamentary Departments) Bill
 - Supply Bills
 - About 20 per cent of expenditure
 - Limited by amount
- Special appropriations
 - About 80 per cent of expenditure
 - Limited by criteria



Special accounts

- An amount of money in the Consolidated Revenue Fund that is earmarked for a specific purpose
- May be drawn when the criteria attaching to the special account are met



Own-source revenue

- Also described as user charges and retained revenue receipts
- Provided for by section 74 of the *Public Governance, Performance and Accountability Act 2013*



Preferred budget measure

- Fiscal balance
 - This measure uses ‘accrual accounting’
 - Records expenses when they are incurred, and revenues when they are earned
 - Does not include most capital transactions
- Underlying cash balance — preferred!
 - This measure uses ‘cash accounting’
 - Records payments when they are made, and receipts when they are received
 - Does not include most payments and receipts relating to capital transactions



'Policy decisions' and 'parameter variations'

- Policy decisions

- Reflect Government decisions such as:
 - new expenditure
 - changing program eligibility
 - changed tax rules

- Parameter variations

- Reflect factors such as:
 - corporate profits
 - employment
 - unemployment
 - Medicare claims



'Administered' and 'departmental'

- Administered
 - social security payments
 - health and education funding
 - revenue receipts
- Departmental
 - salaries
 - office supplies
 - some programs



The Budget Papers and related materials



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Budget Papers and related materials

- Appropriation Bills
- Glossy
- Budget Papers
 - Budget Speech
 - BP 1: Budget Strategy and Outlook
 - BP 2: Budget Measures
 - BP 3: Federal Financial Relations
 - BP 4: Agency Resourcing
- Portfolio Budget Statements
- Ministerial Statements



BP1: Budget Strategy and Outlook

- Statements 1-3:
 - Economic and fiscal outlook
 - The Government's narrative
- Statements 4-6:
 - Revenue and Expenses
 - Net Capital Investment, Assets, Liabilities and Debt
- Statement 9: Budget Financial Statements
- Statement 10: Historical Australian Government Data



BP 2: Budget Measures

- Revenue measures
 - mostly affect the revenues of the Commonwealth
- Expenditure measures
 - mostly affect expenses of the Commonwealth
- Capital measure
 - mostly affect the capital—or assets—held by the Commonwealth



BP 3: Federal Financial Relations

- General Revenue Assistance
 - mostly the GST revenue
- Payments for Specific Purposes
 - healthcare
 - education
 - disability services
 - infrastructure and road funding
 - contingent funding



BP 4: Agency Resourcing

- Amounts and types of appropriation to be used by each entity
- Amounts to be drawn against each special appropriation
- For each special account, expected transactions and balances
- Average staffing levels



Portfolio Budget Statements

- Agency Resource Statement
- Reconciliation of budget measures
- Financial statements
 - Operating statement
 - Cashflow statement
 - Balance sheet

- Outcomes and programmes

“Government outcomes are the intended results, impacts or consequences of actions by the Government on the Australian community. Commonwealth programs are the primary vehicle by which government agencies achieve the intended results of their outcome statements.”

- An agency may have one or more ‘outcomes’
- Each outcome will have one or more ‘programmes’

