

MID-YEAR ECONOMIC AND FISCAL OUTLOOK

1996-97

STATEMENT BY
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AUSTRALIAN GOVERNMENT PUBLISHING SERVICE
CANBERRA 1997

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ISBN 0 644 48428 4

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MID-YEAR ECONOMIC AND FISCAL OUTLOOK

PART I: ECONOMIC AND FISCAL OUTLOOK

The economic outlook remains favourable. Growth in GDP of 3½ per cent is expected in 1996-97, unchanged from that forecast at budget time, accompanied by moderate, but continuing employment growth, and low inflation. The composition of growth is now expected to be a little different, with stronger business investment and an easing in private consumption relative to budget time. Forecast employment growth is unchanged from budget time. The outlook for inflation has continued to improve. Underlying inflation is now forecast to be 2 per cent in the year to the June quarter 1997, significantly lower than anticipated at budget time, while the current account deficit is now forecast to be slightly lower as a share of GDP.

The underlying budget deficit for 1996-97 is now estimated at \$8.5 billion or 1.7 per cent of GDP. This represents a deterioration of \$2.9 billion on the budget time estimate. This outcome primarily reflects unexpectedly low company income tax collections. Lower company tax collections in the current year arise as a result of lower than expected company taxable income in the previous year (1995-96). In addition, lower than forecast inflation and a more favourable outlook for wages in the current year (1996-97) have reduced expected revenue arising from fiscal drag.

There is a contribution from policy decisions taken by the Government. Leaving aside one-off decisions, such as the restructuring of the Australian National Railway Commission (AN) — these policy decisions principally relate to acceptance of Senate requests or amendments. The revised estimates take an appropriately cautious approach and also allow for the impact of the rejection or modification of budget measures by the Senate that still are not accepted by the Government. The Government remains committed to presenting those measures to the Senate again, and the estimates variation in no way represents acquiescence in those amendments or rejections.

These factors also impact on estimates for the out-years. The 1997-98 underlying budget deficit is now estimated at \$3.9 billion or 0.7 per cent of GDP. This is \$2.4 billion higher than the deficit estimated at budget time. On a no policy change basis, the budget would be expected to remain in underlying deficit in 1998-99 and move to underlying surplus in 1999-00. Revised budget aggregates for 1996-97 to 1999-00 are shown in Table 1.

Table 1: Summary of Budget Aggregates

	1996-97			1997-98		
	Estimate	Real Growth	Per cent of GDP	Estimate	Real Growth	Per cent of GDP
	\$m	%		\$m	%	
Revenue						
Tax	123638	4.0	24.2	129250	2.0	23.8
Non Tax	5135	-5.2	1.0	4262	-19.0	0.8
Total	128773	3.6	25.2	133511	1.1	24.6
Underlying Outlays	137263	1.8	26.8	137437	-2.3	25.4
Underlying Balance(a)(b)	-8490		-1.7	-3926		-0.7
Memorandum items:						
Net Advances	-5770		-1.1	-8561		-1.6
Headline Balance (a)(b)	-2720		-0.5	4635		0.9
	1998-99			1999-00		
	Estimate	Real Growth	Per cent of GDP	Estimate	Real Growth	Per cent of GDP
	\$m	%		\$m	%	
Revenue						
Tax	137585	3.9	23.9	147165	4.4	24.1
Non Tax	4113	-5.8	0.7	4148	-1.6	0.7
Total	141698	3.6	24.6	151313	4.2	24.8
Underlying Outlays	143850	2.2	25.0	149645	1.5	24.6
Underlying Balance(a)(b)	-2152		-0.4	1668		0.3
Memorandum items:						
Net Advances	-2496		-0.4	-53		0.0
Headline Balance (a)(b)	344		0.1	1721		0.3

- (a) The underlying budget balance is measured as revenue less outlays (excluding net advances). Net advances consist of net policy lending (new policy lending less repayment of past policy lending) and net equity transactions (equity injections/purchases less equity sales). The headline budget balance is measured as revenue less outlays. A further discussion on the underlying budget balance and headline balance is provided in Appendix G.
- (b) As a result of classification changes introduced since the 1996-97 Budget, estimates are not strictly comparable with those published at budget time. These changes relate in large part to a component of the Australian National Railways Commission superannuation which was previously classified as outlays and is now classified as financing transactions.

Revised estimates of the headline measure of the budget balance broadly reflect the changed outlook for the underlying budget balance over the forward estimates period. The headline budget balance is now estimated to be in deficit of \$2.7 billion in 1996-97 and in surplus by \$4.6 billion in 1997-98 compared with surpluses of \$0.5 billion and \$6.6 billion estimated at budget time. The slightly larger deterioration in the headline balance, relative to the underlying balance, in 1996-97 reflects the slippage of an early repayment of Commonwealth advances to the Snowy Mountains Hydro-electric Authority into 1997-98, in part offset by higher than expected early payments of the second instalment of the sale of the Commonwealth Bank of Australia. There is a commensurate improvement in the headline balance in 1997-98.

Table 2 sets out prospective budget balances for 1996-97 to 1998-99 in the absence of the significant fiscal consolidation undertaken by the Government in the 1996-97

Budget. It demonstrates the structural weakness of the Commonwealth's fiscal position inherited by this Government. On the basis of pre-election policy settings Australia would be facing a prospective deficit of \$11.3 billion or over 2 per cent of GDP in 1996-97 and would still be in deficit to the extent of \$8.0 billion in 1998-99 or 1.4 per cent of GDP. The 1996-97 Budget included measures to deliver \$7.2 billion of savings in respect of 1997-98. The actions of the Senate have seen some of these savings eroded but the Government remains committed to the medium term objective of achieving underlying balance on average over the cycle.

Table 2: Prospective Budget Balances in Absence of Fiscal Consolidation

	1996-97 \$m	1997-98 \$m	1998-99 \$m
Revised Underlying balance estimate (12 March)	-7614	-7340	-3280
(per cent of GDP)	-1.5	-1.3	-0.6
Changes between federal election and 1996-97 Budget			
Effect of parameter and other variations			
Underlying Outlays	1235	749	1061
Revenue	-709	-613	-1073
Total	1944	1362	2134
1996-97 Budget Underlying balance estimate (excl. policy changes)	-9558	-8702	-5414
(per cent of GDP)	-1.9	-1.6	-0.9
Changes between 1996-97 Budget and Mid Year Review			
Effect of reclassifications (a)	-44	-44	-45
Effect of parameter and other variations (b)			
Underlying Outlays	446	-878	-829
Revenue	-1345	-3414	-3472
Total	1791	2537	2643
1996-97 Mid Year Review Underlying balance estimate (excl. policy changes)	-11305	-11195	-8012
(per cent of GDP)	-2.2	-2.1	-1.4

(a) See footnote (b) to Table 1 for further detail.

(b) Excludes the impact of Senate rejection or amendments not accepted by the Government.

Table 3 sets out the impact of the Government's policy measures in addressing the structural weakness of the fiscal position inherited from the previous Government. It also identifies the negative impact on prospective budget outcomes of the Senate rejection of budget measures. As noted earlier the Government intends to present these measures to the Senate again.

Table 3: Effect of Fiscal Consolidation on Prospective Budget Balances^(a)

	1996-97 \$m	1997-98 \$m	1998-99 \$m
1996-97 Mid Year Review Underlying balance estimate (excl. policy changes)	-11305	-11195	-8012
(per cent of GDP)	-2.2	-2.1	-1.4
Policy decisions taken in the 1996-97 Budget			
Underlying Outlays	-2929	-5197	-4847
Revenue	979	1955	1524
Total	-3908	-7152	-6371
Policy decisions taken since the 1996-97 Budget (a)			
Underlying Outlays	1006	-418	181
Revenue	-42	-93	-107
Total	1048	-325	288
Senate rejections/amendments rejected by the Government			
Underlying Outlays	45	166	178
Revenue	-	-45	-45
Total	45	211	223
1996-97 Mid Year Review Underlying balance estimate	-8490	-3926	-2152
(per cent of GDP)	-1.7	-0.7	-0.4

(a) Where the Government has accepted a Senate rejection or amendment of a budget measure the fiscal impact is included as a policy decision. Where the Government has not accepted the Senate's actions the fiscal impact is included in other variations.

ECONOMIC OUTLOOK

The economic outlook remains favourable with continuing solid growth in activity; moderate, but continuing, growth in employment; and with inflation remaining even lower than expected at budget time. Some change in the composition of growth is expected, with private sector activity accelerating and growth in public final demand easing over the forecast period.

Real GDP growth of around 3½ per cent is expected in both 1996-97 and 1997-98, underpinned by a supportive international environment and ongoing strength in business investment. The favourable outlook for business investment, coupled with an upturn in the housing sector, should offset more restrained growth in consumer spending than in recent years, leading to an acceleration in private final demand growth in both years. Public final demand is also expected to be relatively strong in 1996-97, in part because of stronger growth in public investment. A levelling-off in public investment is expected to result in a smaller contribution from the public sector to activity in 1997-98. Net exports are expected to detract slightly from growth in both years: despite continuing strong growth in exports, import growth is forecast to pick up due to solid growth in domestic expenditures and relative price movements in favour of imports as a result of the recent appreciation of the \$A. The inflation outlook has improved significantly since budget time and, if aggregate wage outcomes remain consistent with those forecast, inflation should continue to be low over the medium term. The labour market is expected to improve but only at a pace sufficient to generate

a gradual decline in the unemployment rate. Achieving faster reductions in unemployment will be dependent upon opportunities taken to adopt more flexible arrangements in the labour market.

The forecasts for 1996-97 are summarised in Table 4 while key parameters for 1997-98 are set out in Table 5.

Forecasting Assumptions

The international economy is expected to remain supportive of domestic activity, with Australia's major trading partners (MTP) assumed to grow at around 3¼ per cent in 1996-97 and 4½ per cent in 1997-98, and with MTP inflation expected to remain modest. Moderate growth in Australia's OECD MTP of around 2 per cent is expected to continue in 1996-97, while growth in East Asia should slow from 1995-96 rates but remain strong. The outlook for 1996-97 is slightly weaker than at budget time, primarily as a result of weaker than expected growth in Australia's East Asian MTP. MTP growth is expected to rebound in 1997-98, reflecting strengthening activity in Australia's OECD and East Asian MTP.

In line with usual practice, the exchange rate is assumed to remain broadly unchanged from the average level reached in recent months while the farm sector is assumed to see a return to more normal seasonal conditions in 1997-98.

Domestic Economy— 1996-97

Demand and Output

GDP growth of 3½ per cent is expected in 1996-97, as forecast at budget time. The outlook for non-farm GDP growth is little changed since then, but the farm sector outlook has improved somewhat with increased crop production raising overall gross farm product. Gross national expenditure (GNE) growth in 1996-97 is now expected to be weaker than forecast at budget time, with slower growth in private consumption and dwelling investment more than offsetting a stronger outlook for business fixed investment. The outlook for the other components of GNE is broadly unchanged. However, net exports are expected to detract less from GDP than was anticipated at budget time largely because of weaker growth in imports.

At budget time, growth in **private consumption expenditure** was forecast to slow from the rapid rates of recent years, reflecting the expectation of slower growth in real household disposable income. The aggregate outcome for the September quarter and more recent reports of trading conditions in the retail sector suggest that consumption growth may be slower than previously expected. In combination with the slightly stronger outlook for household disposable income, this implies a modest rebuilding of the household saving ratio in 1996-97.

Table 4: Economic Outlook for 1996-97^(a)

	1996-97	
	Budget forecasts	Revised forecasts
Major trading partners		
Real GDP (b)	4 ¼	3 ¾
Demand and Output (c)		
Private consumption	3	2 ½
Private investment		
Dwellings	-3	-5
Total business investment	14	17
Non-dwelling construction	15	20
Equipment	14	16
Private final demand	4 ½	4
Public final demand	3 ¼	3 ¼
Total final demand	4 ¼	4
Increase in stocks (d)	0	0
Gross national expenditure	4 ¼	4
Net exports (d)	- ¾	- ¼
Gross domestic product (Average measure)	3 ½	3 ½
Other Selected Economic Measures		
Prices and wages		
Consumer price index (e)	2	1
- Treasury 'Underlying' measure (e)	2 ¾	2
Gross non-farm product deflator	2 ¾	2 ¼
Average earnings (f)	5	4 ½
Labour market		
Employment (Labour Force Survey basis)	1 ½	1 ½
Unemployment rate (per cent) (g)	8 ¼	8 ½
Participation rate (per cent) (g)	63 ¾	63 ¾
External accounts		
Current account balance		
\$billion	-20	-20
Percentage of GDP	-4	-3 ¾

(a) Percentage change on preceding year unless otherwise indicated.

(b) Real GDP or gross national product.

(c) Average 198990 prices.

(d) Percentage point contribution to growth in GDP (Average measure).

(e) Through the year to June quarter.

(f) Average earnings (national accounts basis). Excluding the expected impact of additional Commonwealth voluntary redundancies, forecast earnings growth is 4¼ per cent in 1997.

(g) Estimate for the June quarter.

The outlook for **business investment** has strengthened since budget time, with forecast growth in both equipment and non-residential construction being raised. Outcomes in recent quarters have been very strong, and the latest ABS Capital Expenditure (CAPEX) Survey indicates a continued strengthening of investment intentions for 1996-97. On a sectoral basis, the strongest areas remain the mining and service-related sectors. The outlook is particularly positive for non-dwelling construction. Despite high levels of work done in recent quarters, the level of work yet to be completed has continued to rise — particularly for engineering construction, but also for building activity — providing a solid foundation for construction activity in coming quarters. Moreover, higher levels of non-residential building approvals and finance commitments for engineering construction indicate that a further strengthening of new work to be commenced is in prospect. Much of this strength comes from mining-related investment, transport and other infrastructure projects (some of which may have been carried out by the public sector in the past), and large building projects (such as Olympics-related construction). Equipment investment is also forecast to increase slightly more strongly in year-average terms than at budget time. Much of the overall strength in equipment investment reflects spending in the first three quarters of 1996. Sound corporate profitability and rates of return on the capital stock are expected to continue to support investment, even though aggregate capacity utilisation — while remaining relatively high — is below the recent peak of late 1995.

Despite the upward revision to the business investment forecast since budget time, the recent increase in business investment intentions for 1996-97 points to the possibility of an even stronger outlook than forecast. The ABS CAPEX investment intentions data have been interpreted conservatively in preparing the forecasts and the implied aggregate realisation ratio (the ratio of actual investment undertaken to investment intentions) remains around the average of the last 5 years and is significantly below the average of the 1980s.

The forecast contribution to GDP growth in 1996-97 from **stocks** is unchanged from budget time, with the run-up in private non-farm stocks in the September quarter 1996 assumed to be unwound over the remainder of 1997.

Activity in **housing** appears close to bottoming, with trend private building approvals and finance approvals for new dwellings both having begun to increase slowly. Investment in housing is likely to commence increasing during the year but the extent of the continued oversupply of dwellings in some areas should keep the pace of recovery modest.

Public final demand is expected to grow in 1996-97 much as forecast at budget time. The sharp fall in public final demand in the September quarter 1996 needs to be considered against the background of unchanged, or slightly stronger, expenditure plans for the year as a whole, as reflected in the ABS Government Financial Estimates data, and the potential for quarterly estimates of public final demand to be both revised at a later date by the ABS and to be highly volatile from quarter to quarter. The forecasts interpret the Government Financial Estimates data conservatively, adjusting the published expenditure plans for 1996-97 downwards, as past experience indicates that expenditure intentions usually overestimate actual outcomes.

Farm output is forecast to increase more than expected at budget time because of an improved outlook for crop production. In particular, winter grain production in 1996-97 is expected to be close to the highest on record.

Net exports are forecast to detract less from GDP growth in 1996-97 than forecast at budget time. **Export** volume growth is expected to be weaker than at budget time, despite the resumption of modest growth in the September quarter and an improved outlook for farm product and rural exports. Weaker growth in other components — particularly services and some manufactures — reflects the expectation of slower growth in world demand and the impact of relative price movements resulting from the currency appreciation. **Import** growth in 1996-97 is now forecast to be weaker than at budget time predominantly reflecting a lower than expected outcome for the September quarter. For the remainder of the year, stronger GNE growth and a fall in relative prices are forecast to lead to a resumption of import volume growth.

Wages

For 1996-97, wages¹ are forecast to grow slightly more slowly than in the previous year. The downward revision from budget time reflects positive developments in inflation, slightly higher than expected unemployment and lower than expected use of overtime.

While the risks around the wage forecasts are reasonably balanced, early 1997 will be a testing period for enterprise bargaining in a number of key sectors, including construction, metals manufacturing and transport. The forecasts assume that high wage outcomes in some sectors will not be transmitted more widely through the economy. The forecasts also incorporate the Commonwealth's proposals in response to the ACTU's 'Living Wage' claim and, as such, there are risks to the forecasts should the outcome of the claim be different to that assumed here.

Employment and Unemployment

The forecast for **employment** growth through 1996-97 is unchanged from budget time. Over the course of the year, a modest acceleration in employment growth is expected, consistent with recent outcomes and the level of job vacancies, underpinned by continuing solid growth in economic activity and modest real wage growth.

However, the **participation rate** is now likely to be higher on average in 1996-97 than anticipated at budget time, on the basis of outcomes to date, resulting in a slightly higher than anticipated unemployment rate by the June quarter 1997². Because more people than previously expected are being encouraged by rising employment opportunities to participate in the workforce, the **unemployment rate** is expected to decline only slowly, reaching around 8½ per cent by the June quarter 1997.

¹ Excluding the expected impact of the higher than normal level of Commonwealth redundancies in 1996

² Although as shown in Table 4, when rounded to the nearest ¼ percentage point, the June quarter participation rate rounds down to the budget time estimate.

Prices

The inflation outlook has improved significantly since budget time, with **underlying inflation** now expected to be 2 per cent in the year to the June quarter 1997. The downward revision to the budget time forecast reflects the better-than-expected September quarter outcome and an improved outlook for growth in nominal unit labour costs as a result of slower growth in average earnings and growth in labour productivity in excess of its historical average.

It continues to be difficult to disentangle the effect on retail prices of changes in import prices, flowing from the appreciation of the exchange rate, from the effects of the generally more competitive trading environment. To the extent that recent inflation outcomes reflect a faster than usual rate of exchange rate pass-through into retail prices, inflation outcomes could be even better in 1996-97 but higher than forecast in 1997-98.

The impact of recent reductions in official interest rates and ongoing competition in housing and consumer credit interest rates is expected to lead to a lower contribution to **'headline' inflation** in 1996-97 from mortgage interest charges and consumer credit charges. These lower interest-related charges, together with the downward revision to forecast underlying inflation, are responsible for the much improved outlook for 'headline' inflation since budget time.

Broader measures of price inflation, such as growth in the **non-farm GDP deflator**, are also expected to be low in 1996-97. This partly reflects the recent falls in import prices which have depressed the prices of goods with a high import intensity, most noticeably investment equipment.

The Current Account

The outlook for the **current account deficit** in 1996-97 remains similar to that forecast at budget time, at about \$20 billion. Relative to budget time, a more favourable outcome from net exports is expected, predominantly due to weaker import volumes, but slightly weaker growth in the **terms of trade** and a higher net income deficit are also in prospect. The downward revision to the terms of trade reflects outcomes to date, whilst the revision to the net income deficit largely reflects recent revisions to outcomes for 1995-96 which have resulted in higher estimates for the net reinvested earnings deficit.

Domestic Economy— 1997-98

At budget time, projections of the key economic parameters which underpin the forward estimates of outlays and revenue were published representing an economic scenario for the period 1997-98 to 1999-00. Preliminary forecasts of key parameters for 1997-98 are presented for the first time in Table 5 (along with projections for the following 2 years). These will be formally reviewed in the May 1997 Budget which will contain a fully elaborated set of forecasts for 1997-98.

On this preliminary basis, GDP growth is forecast to remain steady at around 3½ per cent in 1997-98. GNE growth is expected to be broadly similar to that in 1996-97, as slowing growth in public final demand and business investment broadly

offset a modest rebound in private consumption expenditure and the recovery in dwelling investment. However, private final demand should accelerate on the back of the strengthening in consumption growth and the recovery in the housing sector. Net exports are forecast to make a broadly similar deduction from GDP growth to that in 1996-97.

Private consumption growth should rebound in 1997-98 consistent with ongoing solid growth in real household disposable income. Dwelling investment should grow as the upturn in the housing sector picks up pace. Business investment growth should slow as equipment investment returns to a more sustainable growth rate even though non-dwelling construction, based on the amount of work outstanding, should continue to grow strongly. Public final demand growth is expected to slow, reflecting the Commonwealth Government's programme of fiscal consolidation.

Steady output growth and continued modest real wage growth mean that employment growth through 1997-98 is expected to be similar to that in 1996-97.

Average earnings growth is forecast to remain broadly unchanged in 1997-98³. Inflation is anticipated to pick up slightly during 1997-98 as the dampening influence of recent falls in import prices fades and as earlier growth in nominal unit labour costs is passed through into prices. Underlying inflation by the end of the year is expected to be around 2½ per cent.

As a share of GDP, the current account deficit in 1997-98 is likely to be little changed from 1996-97.

Medium-term Scenario

Table 5 presents the major economic parameters assumed in preparing the revised budget estimates. They comprise the forecasts for 1996-97 and preliminary forecasts for 1997-98 discussed above and medium-term projections for 1998-99 and 1999-00.

Table 5: Major Economic Parameters (percentage change from previous year)

	Forecasts		Projections	
	1996-97	1997-98	1998-99	1999-00
Real GDP (A)	3 ½	3 ½	3 ½	3 ½
Employment (a)	1 ¾	2	2	2 ¼
Wages (b)	4 ½	4	3 ½	3 ½
CPI (c)	1 ½	1 ¾	2 ½	2 ½

(a) Civilian wage and salary earners (national accounts basis). On a Labour Force Survey basis, employment growth is 1½ per cent in 1996-97 as indicated in Table 4.

(b) National accounts basis, including superannuation. Includes voluntary redundancy and superannuation payments to Commonwealth public servants which boost wage growth slightly in 1996-97. Excluding this effect, wage growth would be around 4 per cent in 1996-97.

(c) Headline consumer price index.

³ Relative to wage growth (excluding the expected impact of Commonwealth redundancies) in 1996

The parameters for 1997-98 differ from those published at budget time reflecting the transition from a projection year to a forecast—this has resulted in stronger GDP growth and an improved inflation outlook relative to that assumed at budget time. Real GDP growth in the projection years, as at budget time, is assumed to be slightly higher than historical experience reflecting an allowance for the impact of past and current structural reforms. The other major difference between these parameters and those used at budget time concerns wages and inflation in the projection years. ‘Headline’ CPI inflation is now assumed to be $\frac{1}{2}$ a percentage point lower at $2\frac{1}{2}$ per cent, the mid-point of the Reserve Bank’s medium-term monetary policy target range for underlying inflation, and wage growth is also assumed to be $\frac{1}{2}$ a percentage point lower at $3\frac{1}{2}$ per cent, leaving growth in real wages unchanged from that assumed at budget time.

FISCAL OUTLOOK

Table 6 provides a reconciliation of budget estimates between those released at the time of the 1996-97 Budget and the 1996-97 Mid Year Review in terms of parameter and other variations and policy decisions. The impact of the rejection or amendment of measures by the Senate is separately identified as a memorandum item to the table.

Table 6: Reconciliation of Underlying Budget Balance Estimates

	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-00 \$m
1996-97 Budget underlying balance estimates(a)	-5605	-1504	1002	5716
(per cent of GDP)	-1.1	-0.3	0.2	0.9
Changes between 1996-97 Budget and Mid Year Review				
Effect of parameter and other variations (b)				
Underlying Outlays	491	-712	-651	-553
Revenue	-1345	-3459	-3517	-4300
Total	1836	2747	2866	3747
Revised Underlying balance (excl. policy changes)	-7441	-4251	-1864	1969
Effect of policy decisions (b)				
Underlying Outlays	1006	-418	181	185
Revenue	-42	-93	-107	-116
Total	1048	-325	288	301
1996-97 Mid Year Review Underlying balance estimate (c)	-8490	-3926	-2152	1668
(per cent of GDP)	-1.7	-0.7	-0.4	0.3
Memorandum Item				
Effect of Senate rejection/amendment of measures				
Senate rejections/amendments accepted by the Government				
Underlying Outlays (d)	-2	112	165	171
Revenue	-29	-88	-65	-54
Senate rejections/amendments rejected by the Government				
Underlying Outlays	45	166	178	178
Revenue	-	-45	-45	-50
Total	72	410	452	452

- (a) Figures differ from estimates published in the 1996-97 Budget due to classification changes introduced since the 1996-97 Budget. See footnote(b) to Table 1 for further detail.
- (b) Where the Government has accepted a Senate rejection or amendment of a budget measure the fiscal impact is included as a policy decision. Where the Government has not accepted the Senate's actions the fiscal impact is included in other variations.
- (c) Excluding the impact of Senate rejections or amendments not accepted by the Government, the underlying budget balance estimates are -\$8,445 million in 1996-97; -\$3,715 million in 1997-98; -\$1,929 million in 1998-99; and \$1,896 million in 1999-00.
- (d) Only includes the estimated impact of Senate measures on the underlying balance. Measures reducing the headline balance only, amount to \$0.0 million in 1996-97, \$15.7 million in 1997-98, \$16.0 million in 1998-99 and \$17.6 million in 1999-00.

Table 6 shows that parameter and other variations account for the bulk of the deterioration in the fiscal outlook since the 1996-97 Budget. Company tax collections in 1996-97 are running significantly below budget time estimates leading to a substantial downward revision to forecast collections for 1996-97. This arises from lower than taxable income for companies in the 1995-96 year. Lower collections in 1996-97 flows through into estimated collections in the outyears (see page 29 for further discussion). Lower forecast inflation and wages growth in current and future years have reduced revenue from fiscal drag.

The higher outlays estimates in 1996-97 reflect both the outlook for unemployment and changes to programme specific parameters such as higher average rates payable on

pensions and benefits. While these factors also flow through into the outlays estimates in subsequent years, their impact in the outyears is more than offset by the beneficial impact on outlays stemming from lower estimates for inflation and interest rates.

Policy decisions taken by the Government since the 1996-97 Budget — including acceptance or rejection or amendment of budget measures by the Senate — are expected to add \$1.0 billion to the deficit in 1996-97 and a total of \$1.3 billion over the four years to 1999-00. The vast majority of the \$1 billion extra outlays in 1996-97 is associated with one-off measures such as the restructuring of the Australian National Railways Commission and the PRRT-related payment to Victoria. The latter is broadly offset by additional tax revenue flowing from the arrangement.

Major policy decisions which affect the fiscal outlook include:

- the payment of \$556 million to the Victorian Government in 1996-97 as a one-off payment to fulfil the Commonwealth's obligations under the Deed for the Return of Tax Payments, between Victoria and the Commonwealth. This is broadly offset by higher PRRT and company tax revenues payable to the Commonwealth (see further discussion in respect of 1996/97 revenue estimates on page 31);
- the funding for the restructuring of the AN in preparation for its sale is included in outlays. The sale of AN is part of a package of rail reform measures which also includes the sale of the Commonwealth's interest in National Rail Corporation (NR) — the proceeds of which are not brought to account in the underlying balance;
- drought relief of \$48 million in 1996-97 and \$33 million in 1997-98;
- the sale of additional radiocommunications spectrum by the Spectrum Management Agency (which, as the sale of a non-financial asset, is recorded as an offset to outlays) reduces underlying outlays in 1997-98; and
- amendments by the Senate to budget measures designed to improve debt recovery costing \$3 million in 1996-97 and \$180 million over four years to 1999-00.

Many of the decisions taken by the Government since the 1996-97 Budget impact primarily in 1996-97 and do not have a major effect in the outyears. Decisions which are estimated to impact on the underlying budget balance in a sustained manner amount to around \$300 million in each year.

In total, the rejection or modification of budget measures by the Senate has added \$1.4 billion to the underlying budget balance over the four years to 1999-00.

A detailed discussion of the implications of changes to the economic parameters as well as a description of policy decisions and other influences on revenues and outlays is provided in Part II.

General Government Aggregates

Also presented for the first time are forward estimates of the underlying balance — and the revenue and outlays components — for the Commonwealth general government sector. The Commonwealth general government sector comprises both the budget and non-budget sectors. The budget sector, which dominates the general government sector, consists of those departments and agencies whose transactions are recorded on the Commonwealth Public Account (CPA). The non-budget sector includes Commonwealth government authorities such as the ABC and CSIRO, which operate outside the CPA through their own bank accounts. A more detailed description of these sectors can be found in the 1996-97 Budget Statements.

The estimates provided in Table 7 are based on Government Finance Statistics (GFS) classification principles. However, in order to provide an estimate of the underlying balance broadly consistent with the ‘net lending’ concept in the national accounts, no adjustment is made for the increase in provisions⁴. As required by the Charter of Budget Honesty, general government estimates are also presented on a GFS consistent basis in Appendix F. A discussion of the GFS concepts and how these differ from the budget presentation is provided in **Error! Reference source not found.**

⁴ Provisions are largely for payments in respect of superannuation and compensation to the Public Trading Enterprises sector.

Table 7: Summary of General Government Aggregates

	1996-97			1997-98		
	Estimate	Real Growth	Per cent of GDP	Estimate	Real Growth	Per cent of GDP
	\$m	%		\$m	%	
Revenue						
Tax	123651	3.6	24.2	130209	2.7	24.0
Non Tax	5311	-11.4	1.0	3731	-31.5	0.7
Total	128962	3.0	25.2	133940	1.3	24.7
Underlying Outlays	137034	1.1	26.8	137398	-2.2	25.3
Underlying Balance	-8072		-1.6	-3458		-0.6
Memorandum items:						
Net Advances	-5928		-1.2	-8450		-1.6
Headline Balance	-2144		-0.4	4992		0.9
	1998-99			1999-00		
	Estimate	Real Growth	Per cent of GDP	Estimate	Real Growth	Per cent of GDP
	\$m	%		\$m	%	
Revenue						
Tax	137937	3.4	24.0	147536	4.4	24.2
Non Tax	4191	9.6	0.7	4226	-1.6	0.7
Total	142128	3.6	24.7	151762	4.2	24.9
Underlying Outlays	143350	1.8	24.9	148501	1.1	24.4
Underlying Balance	-1222		-0.2	3261		0.5
Memorandum items:						
Net Advances	-2423		-0.4	-28		0.0
Headline Balance	1202		0.2	3289		0.5

The Commonwealth general government underlying balance in 1996-97 is expected to be in deficit by \$8.1 billion. Although comparable estimates were not published in the 1996-97 Budget, the estimate does represent a deterioration in the underlying balance for the Commonwealth general government sector in 1996-97 relative to that expected at budget time. The deterioration in the Commonwealth general government underlying balance largely reflects the deterioration in the budget sector. However, the outlook for the non-budget sector has improved relative to that expected at budget time.

The outlook for the Commonwealth general government sector over the forward estimates period largely mirrors the outlook for the budget sector, with an underlying surplus being achieved in 199900.

Implications for 199697 Budget Achievements

In the 1996-97 Budget the Government announced savings measures of \$7.2 billion over the twoyears to 199798.

Policy changes which adversely affect the budget balance, including those occasioned by the actions of the Senate, impact on these savings. Adjustments to the estimates as a result of economic or programme specific parameters do not.

PART II: OUTLAYS AND REVENUE

OUTLAYS

Budget Sector Outlays

Table 8 provides estimates of budget sector outlays for 1996-97 to 1999-00 and Table 9 reconciles the outlays estimates as at budget time to the estimates in the 1996-97 Mid Year Review.

Table 8: Estimates of Budget Sector Outlays

	1996-97		1997-98	
	Budget(a)	MYR	Budget(a)	MYR
Underlying outlays (\$m)	135765	137263	138567	137437
<i>Real growth on previous yr (%)</i>	0.1	1.8	-0.6	-2.3
<i>Underlying outlays (% of GDP)</i>	26.4	26.8	25.4	25.4
Net Advances (\$m)	-6123	-5770	-8186	-8561
Outlays (\$m)	129642	131493	130381	128876
<i>Real growth on previous year (%)</i>	-0.5	1.5	-2.1	-4.4
<i>Outlays (% of GDP)</i>	25.2	25.7	23.9	23.8
	1998-99		1999-00	
	Budget(a)	MYR	Budget(a)	MYR
Underlying outlays (\$m)	144320	143850	150013	149645
<i>Real growth on previous yr (%)</i>	1.1	2.2	0.9	1.5
<i>Underlying outlays (% of GDP)</i>	24.9	25.0	24.3	24.6
Net Advances (\$m)	-2518	-2496	-72	-53
Outlays (\$m)	141803	141354	149942	149592
<i>Real growth on previous year (%)</i>	5.6	7.1	2.7	3.3
<i>Outlays (% of GDP)</i>	24.4	24.6	24.3	24.5

(a) Figures differ from estimates published in the 1996/97 Budget due to classification changes introduced since the 1996-97 Budget. See footnot(b) to Table 1 for further detail.

Since the 1996-97 Budget underlying outlays have increased by \$1,498 million in 1996-97 but decreased by \$1,130 million in 1997-98, \$470 million in 1998-99 and \$368 million in 1999-00. Since budget-time underlying outlays in 1996-97 have increased from 26.4 per cent of GDP to 26.8 per cent and are now forecast to grow in real terms by 1.8 per cent compared to a budget forecast of 0. per cent.

Underlying outlays in 1997-98 are forecast to fall in real terms by 2.3 per cent compared to the forecast fall at budget time of 0. per cent.

Table 9: Reconciliation of Changes to Budget Sector Outlays since the 1996-97 Budget

	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-00 \$m
Underlying Outlays at Budget Time (a)	135765	138567	144320	150013
Variations				
From 1996-97 Budget to Mid Year Review				
Policy Decisions	1006	-418	181	185
Revisions to economic parameters				
JSA/Newstart	177	72	61	93
Prices and Wages	-15	-489	-726	-1,241
Interest and Exchange Rates	-9	-22	-18	-20
Public Debt Interest	-286	-436	-270	9
Sub total revision to economic parameters	-133	-874	-953	-1,159
Programme Specific Parameters	482	280	452	593
Slippage in 1996-97 Budget Decisions	32	38	3	0
Other Revisions	110	-155	-153	13
Total Variations	1497	-1130	-470	-368
Underlying Outlays at Mid Year Review	137263	137437	143850	149645
<i>Effect of Senate rejecting/amending measures</i> (b)	44	278	342	349

(a) Figures differ from estimates published in the 1996-97 Budget due to classification changes introduced since the 1996-97 Budget. See footnot(b) to Table 1 for further detail.

(b) Where the Government has accepted a Senate rejection or amendment of a budget measure the fiscal impact is included as a policy decision. Where the Government has not accepted the Senate's actions the fiscal impact is included in 'Other Revisions'.

Note: Estimates may not add due to rounding.

Policy decisions add significantly to outlays in 1996-97, reduce outlays substantially in 1997-98, and increase them by around \$180million in 1998-99 and 1999-00.

Details of these policy decisions are set out in Table 10 and Appendix A while Table 11 and Appendix B set out the measures affected by the actions of the Senate.

Revisions to economic parameters reduce outlays in all years but the impact is much larger in the outyears.

- Outlays on Newstart allowances are slightly higher due to higher estimates of unemployment beneficiaries.
- Lower expected inflation reduces outlays on indexed benefits and payments over the forecast period.
- Expected lower interest rates provide a major benefit via lower forecast public debt interest outlays in part offset by higher interest costs associated with smaller than expected headline budget surpluses in outyears.

Table 10: Policy Decisions Taken Since the 1996-97 Budget^(a)

	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-00 \$m
ADMINISTRATIVE SERVICES				
Funding for the Menzies Research Centre and the Evatt Foundation	0.2	0.2	0.2	0.2
Total	0.2	0.2	0.2	0.2
ATTORNEY-GENERAL'S				
Dr C Lawrence - Legal Costs in relation to the Marks Royal Commission	0.1	0.0	0.0	0.0
Ex Gratia payment to the widow of Detective-Sergeant Bowen	0.4	0.0	0.0	0.0
Total	0.4	0.0	0.0	0.0
COMMUNICATIONS AND THE ARTS				
Grant to assist with the restoration of St John's Cathedral, Brisbane	1.0	0.0	0.0	0.0
Grant for the establishment of an Australian Football Hall of Fame and Museum	1.0	0.0	0.0	0.0
Grant to assist with the restoration of St Patrick's Cathedral, Melbourne	1.0	0.0	0.0	0.0
Proceeds from sale of additional spectrum	nfp	nfp	nfp	nfp
Total	nfp	nfp	nfp	nfp
EMPLOYMENT, EDUCATION, TRAINING AND YOUTH AFFAIRS				
Higher Education Contribution Scheme repayment exemption for those in receipt of Medicare exemption or reduction because of low family income (b)	0.0	0.0	0.0	0.0
Change the age of independence for AUSTUDY to 25 years	4.5	9.0	10.4	11.2
Total	4.5	9.0	10.4	11.2
ENVIRONMENT, SPORT AND TERRITORIES				
Great Barrier Reef Marine Park Authority - Reinstatement of savings related to the Environment Management Charge revenue increase	2.0	2.7	0.0	0.0
Total	2.0	2.7	0.0	0.0
HEALTH AND FAMILY SERVICES				
Deferral of implementation of the reduction to the Community Sector Support Scheme	0.1	0.0	0.0	0.0
Provision of safety net arrangements in connection with 1996-97 Budget measure limiting Medicare access to new doctors without post graduate qualifications	-5.0	0.4	5.8	11.3
Adjust 1996-97 Budget measure reducing Medicare benefits for psychiatry consultations in excess of 50 per patient per year	0.1	0.4	0.4	0.4
Total	-4.8	0.8	6.2	11.7
IMMIGRATION AND MULTICULTURAL AFFAIRS				
Regionally sponsored migration scheme	0.5	0.5	0.5	0.5
Total	0.5	0.5	0.5	0.5
INDUSTRY, SCIENCE AND TOURISM				
Financial Assistance to facilitate further development of Gosford International Garden Festival concept	0.3	0.0	0.0	0.0
Nuclear Spent Fuel Rods - Repayment of borrowings	0.0	3.9	0.0	0.0
Extension of the operation of the shipbuilding bounty to 31 December 1997	3.2	10.0	0.0	0.0

Table 10: Policy Decisions Taken Since the 1996-97 Budget (continued)

	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-00 \$m
INDUSTRY, SCIENCE AND TOURISM(continued)				
Amendment of the proposed termination date of the book bounty to 30 June 1997	4.0	3.6	0.0	0.0
Total	7.5	17.5	0.0	0.0
SOCIAL SECURITY				
Correction of anomalies in the measure to reduce the maximum Rent Assistance payable to singles in shared accommodation	0.0	1.7	1.7	1.8
Exclude Disability Support Pensioners and Carer Pensioners from the application of sharers' rate from Rent Assistance	0.0	6.1	6.8	7.3
Interim Computer Mainframe Leases	1.1	7.4	3.9	0.0
Modify eligibility of, and payment conditions for, Partners' and Widows' Allowance recipients and Widows' Pensions	0.5	2.2	2.7	3.0
Application of time limits to the recovery of certain debts	3.0	28.3	74.3	74.3
Tighten Newstart Allowance activity test - delay in implementation	8.4	0.8	0.0	0.0
Total	13.0	46.5	89.4	86.3
TRANSPORT AND REGIONAL DEVELOPMENT				
Restructure of Australian National Railways Commission (ANRC)	nfp	nfp	nfp	nfp
Total	nfp	nfp	nfp	nfp
TREASURY				
Payment of tax receipts to Victoria	555.6	0.0	0.0	0.0
Total	555.6	0.0	0.0	0.0
CONTINGENCY RESERVE (c)				
Regional Telecommunications Infrastructure Fund	0.0	50.0	50.0	50.0
Additional funding for Natural Heritage Trust of Australia Reserve	0.0	25.0	25.0	25.0
Natural Heritage Trust of Australia Reserve Programmes - additional funds for 1996-97	12.3	0.0	0.0	0.0
Murray Darling Basin Relief Fund	1.5	0.0	0.0	0.0
Total	13.8	75.0	75.0	75.0
CROSS PORTFOLIO				
Drought - extension of recovery period	48.4	32.7	0.4	0.0
Funding for Radiofrequency Electromagnetic Energy Public Health Issues	0.5	1.0	1.0	1.0
Re-instatement of 10% broadbanding dividend applied to Blood transfusion service and artificial limbs scheme in 1996-97	6.8	0.0	0.0	0.0
Total	55.7	33.7	1.4	1.0

- (a) This table includes budget measures rejected or amended by the Senate where the Government has accepted the Senate's action. These are also included in Table 11.
- (b) This measure reduces the headline balance by \$0.0million in 1996-97, \$15.7 million in 1997-98, \$16.0 million in 1998-99 and \$17.6million in 1999-00.
- (c) Measures associated with the Environment package have been included in the Contingency Reserve pending the final passage of the Telstra (Dilution of Public Ownership) Bill 1996. The Contingency Reserve also includes the effect of some government decisions which have been received too late to be included in the programme estimates.

nfp: For commercial reasons expected proceeds of asset sales are not published.

Totals may not add due to rounding.

Table 11: Impact on Underlying Outlays of Senate Rejection/Amendment of Budget Measures

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- (a) Budget measures where the Senate required an amendment and the amendment was agreed by the Government are also shown in Table 10.
- (b) This measure reduces the headline balance by \$0.0 million in 1996-97, \$15.7 million in 1997-98, \$16.0 million in 1998-99 and \$17.6 million in 1999-00.

Contingency Reserve

The Contingency Reserve is an allowance, included in aggregate outlays figuring, to reflect anticipated events which cannot be assigned to individual programmes. The Reserve is an estimating device used to ensure that the estimates are based on the best information available at the time of publication. It is not a policy reserve.

While the Reserve ensures that aggregate estimates are as close as possible to expected outcomes, it has no legal status and is not appropriated in the budget or additional estimates. Instead, allowances that are included in the Reserve can only be drawn upon once they have been appropriated by Parliament.

The Contingency Reserve makes allowance in the estimates for anticipated events including the following.

- Within year changes to nondefence wage and salary awards.
 - There are expected changes in non-defence wage and salary awards/certified agreements during the course of the forward years for departments and budget-funded agencies, as well as the estimated full year impact of changes in wages and salaries which cannot be allocated by agency. A separate allowance is made against the Defence function for expected changes in defence wage and salary awards/certified agreements for both Australian Defence Force and civilian employees. This item has been revised since budget time.
- The established tendency for estimates of spending on existing government policy in the forward years to be revised upward.
 - Forward estimates, particularly for demand driven appropriations, tend to be conservative and underestimate the growth in outlays. Experience suggests that, at budget time, revision of the forward estimates amounts to around 0.75 per cent of total outlays in the first year, increasing in each following year. This allowance has been adjusted since budget time.
- Expected running costs carryovers from 1996-97 into 1997-98.
 - Departments and agencies have flexibility, under the running costs arrangements, to carry forward funds from the budget year to the following year. A negative allowance of around 1.5 per cent of the aggregate running costs budget was included in the contingency reserve in 1996-97 at budget time to represent the effect of the expected carryover on total outlays into 1997-98. The budget time estimate remains unchanged.

- Commercial-in-confidence items which cannot be disclosed separately.
- Allowances for the avoidable direct costs of the sale of Telstra, and for the measures comprising the environment package consequent on the final passage of the *Telstra (Dilution of Public Ownership) Bill 1996* have changed since budget time.
- The effect of parameter revisions for the estimates received too late to be included in programme estimates.
- The effect of Government decisions received too late to be included in programme estimates.
- An allowance to increase the forward estimates to maintain pensions at 25 per cent of total male Average Weekly Earnings; based on current forecasts of economic parameters and Average Weekly Earnings; the allowance currently required is around \$280million in 1997-98 rising to \$1200million in 1999-00.
- The established tendency for estimates of some programme expenditure to be overstated in the current year. A small negative allowance included at budget time remains unchanged.

Table 12: Changes to Budget Sector Underlying Outlays by Function Since the 1996 Budget (\$m)

	1996-97			1997-98		1998-99		1999-00	
	Budget(a)	MYR	Difference	Budget(a)	MYR	Budget(a)	MYR	Budget(a)	MYR
General Public Services	6996	7012	16	6236	6151	6959	6829	6714	6679
Defence	10099	10127	28	10431	10432	10677	10678	10939	10942
Public Order and Safety	1492	1485	-6	882	897	885	887	893	895
Education	10464	10506	42	10385	10446	10395	10467	10471	10548
Health	19408	19469	60	20659	20664	21588	21610	22689	22651
Social Security and Welfare	48886	49534	648	49989	50575	52296	52925	55098	55906
Housing and Community Amenities	1328	1176	-152	1233	1223	1162	1146	1117	1099
Recreation and Culture	1390	1391	1	1287	1294	1221	1223	1224	1228
Fuel and Energy	23	23	0	25	25	25	25	25	25
Agriculture, Forestry and Fishing	1922	1911	-11	1801	1826	1831	1826	1872	1861
Mining and Mineral Resources, other than Fuels; Manufacturing; and Construction	1774	1762	-11	1740	1714	1609	1555	1468	1460
Transport and Communication	1359	1703	344	1341	748	1364	1365	1338	1338
Total Other Economic Affairs	3649	3672	23	3213	3215	3049	3076	3019	3050
Total Other Purposes	27411	28087	676	28022	28020	28972	28957	29758	29758
Contingency Reserve	-184	-341	-157	1311	193	2294	1286	3393	2211
Asset Sales	-253	-255	-2	11	13	-6	-6	-6	-6
Total Underlying Outlays	135765	137263	1498	138567	137437	144320	143850	150013	149645
<i>Memorandum Items</i>									
<i>Net Advances</i>	-6123	-5770	353	-8186	-8561	-2518	-2496	-72	-53
<i>Total Outlays</i>	129642	131493	1851	130381	128876	141803	141354	149941	149592

(a) Figures differ from estimates published in the 1997 Budget due to classification changes introduced since the 1996 Budget. See footnote (b) to Table 1 for further detail.

Table 13: Changes to Budget Sector Outlays by Economic Type Since the 1997 Budget (\$m)

	1996-97			1997-98		1998-99		1999-00	
	Budget(a)	MYR	Difference	Budget(a)	MYR	Budget(a)	MYR	Budget(a)	MYR
CURRENT OUTLAYS									
Final Consumption Expenditure	22314	22418	103	22153	22204	22338	22331	22749	22830
Defence Salaries	3495	3518	23	3461	3461	3483	3483	3542	3542
Non-Salaries	6504	6505	1	6879	6880	7098	7099	7298	7301
Non-Defence Salaries	4808	4880	72	4518	4548	4482	4514	4505	4526
Non-Salaries	7507	7514	7	7296	7315	7274	7235	7405	7461
Total Current Transfer Payments	110199	111490	1291	112579	113178	117115	117592	122280	122793
Interest	9884	9874	-10	9922	9936	9875	9882	9287	9292
Subsidies (b)	3046	3041	-5	2955	2932	3023	2962	2947	2929
Personal Benefit Payments	47317	47948	631	48644	49149	51278	51747	54429	54940
Grants to Non-Profit Institutions	2758	2771	13	2767	2775	2834	2852	2892	2913
Grants to Non-Budget Sector (b)	13802	13754	-48	14865	14868	15470	15471	16453	16389
Grants to State Governments	24869	25570	701	24920	24986	26055	26077	27557	27583
Grants Through State Governments	7089	7112	23	7083	7106	7110	7125	7172	7199
Grants Direct to Local Governments	247	243	-4	254	256	275	279	296	301
Grants Overseas	1173	1164	-9	1163	1164	1190	1191	1240	1241
Other Transfers	13	13	0	6	6	6	6	6	6
TOTAL CURRENT OUTLAYS	132513	133907	1394	134732	135383	139453	139924	145029	145622
CAPITAL OUTLAYS									
Capital Outlays on Goods (c)	275	310	35	128	126	577	579	148	157
Capital Outlays on Land	63	63	0	23	-599	62	60	62	62
Total Capital Transfer Payments	2971	3197	227	2741	2747	2686	2660	2625	2624
Grants to Non-Budget Sector (b)	344	672	328	304	320	309	309	315	315
Grants to State Governments	2456	2319	-137	2322	2325	2285	2284	2242	2242
Grants Direct to Local Governments	13	17	4	10	9	9	6	5	5
Grants to Other Sectors	158	189	31	105	94	84	60	64	63
Total Net Advances	-6123	-5770	353	-8186	-8561	-2518	-2496	-72	-53
To Non-Budget Sector	-997	-282	715	-85	-813	-29	-30	-24	-26
To Other Governments	-953	-984	-31	-895	-886	-204	-197	-1256	-1252
To Other Sectors	-4173	-4504	-330	-7206	-6862	-2285	-2269	1208	1225
TOTAL CAPITAL OUTLAYS	-2814	-2199	614	-5294	-6287	808	803	2763	2790
Contingency Reserve (d)	-57	-214	-157	943	-219	1542	628	2149	1180
TOTAL UNDERLYING OUTLAYS (e)	135765	137263	1498	138567	137437	144320	143850	150013	149645
TOTAL OUTLAYS	129642	131493	1851	130381	128876	141803	141354	149941	149592

(a) Figures differ from estimates published in the 1997 Budget due to classification changes introduced since the 1997 Budget. See footnote (b) to Table 1 for further detail.

(b) Current grants to PTEs are classified as subsidies and are not included in Grants to the Non-Budget sector.

(c) Capital Outlays on Goods covers the purchase of new fixed assets, purchases less sales of secondhand fixed assets and stocks.

(d) An allowance for parameter revisions which could not be included in detailed estimates.

(e) Current outlays plus capital outlays less net advances plus contingency reserve.

Table 14: Changes to Budget Sector Underlying Outlays by Portfolio Since the 1996 Budget (\$m)

	1996-97			1997-98		1998-99		1999-00	
	Budget(a)	MYR	Difference	Budget(a)	MYR	Budget(a)	MYR	Budget(a)	MYR
Parliament	163	163	0	158	158	159	159	162	162
Attorney-General's	1453	1445	-8	843	859	846	849	850	851
Communications and the Arts	1207	1205	-2	1118	497	1089	1091	1094	1099
Defence	11066	11094	28	11482	11496	11832	11845	12214	12233
Veterans' Affairs	6366	6449	83	6356	6415	6422	6484	6519	6584
Employment, Education, Training and Youth Affairs	13340	13385	46	12910	12983	12779	12885	12788	12899
Environment, Sport and Territories	1831	1828	-3	1829	1830	1842	1836	1854	1862
Finance	407	391	-17	488	374	552	411	595	503
Administrative Services	512	524	13	-2	11	547	522	67	76
Foreign Affairs and Trade	2036	2042	6	2008	1998	1999	2000	2040	2041
Health and Family Services	20799	20823	24	22135	22150	23110	23144	24270	24279
Immigration and Multicultural Affairs	461	477	16	434	427	446	445	453	456
Industrial Relations	266	266	0	258	258	261	262	267	267
Industry, Science and Tourism	3161	3150	-11	3171	3145	3175	3108	3105	3086
Primary Industries and Energy	1793	1825	32	1530	1574	1475	1473	1486	1487
Prime Minister and Cabinet	1065	1057	-8	1113	1110	1157	1160	1200	1198
Social Security	40641	41083	441	41634	42128	42654	43203	43880	44562
Transport and Regional Development	1441	1787	346	1302	1336	1303	1304	1276	1275
Treasury	27935	28602	667	28464	28470	30376	30384	32500	32516
Contingency Reserve	-177	-334	-157	1336	218	2295	1287	3393	2211
Total Underlying Outlays	135765	137263	1498	138567	137437	144320	143850	150013	149645

(a) Figures differ from estimates published in the 1997 Budget due to classification changes introduced since the 1996 Budget. See footnote (b) to Table 1 for further detail.

General Government Outlays

Table 15 compares revised estimates of outlays for the Commonwealth General Government sector for 1996-97 against the estimates published in Statement 7 of Budget Paper No. 1 in the 1996-97 Budget. As data for the outyears was not available at budget time, a comparison of developments in the outyear estimates is not possible.

The comparison with budget time outlays should be treated with caution, as the methodology used for collection of data has been different each time. The budget numbers were based on a small sample of enterprises collected by the Australian Bureau of Statistics (ABS) and supplied in aggregate form, while the data produced for this publication has been collected by the Department of Finance from a sample of non-budget agencies which covers 98 per cent of the expenditure of that sector. This is the first occasion in which forward estimates of outlays have been included in general government statistics. As the methodology for collecting this data is still evolving, some caution should be exercised when interpreting the data.

Table 12: Estimates of Commonwealth General Government Outlays

	1996-97			1997-98	1998-99	1999-00
	Budget(a)	MYR	Difference	MYR	MYR	MYR
Outlays (\$m)	130876	131106	230	128948	140926	148473
<i>Real growth on previous year (%)</i>	0.1	0.7	0.6	-4.1	6.7	2.8
<i>Outlays (% of GDP)</i>	25.5	25.6	0.1	23.8	24.5	24.4
Net Advances (\$m)	-5922	-5928	-6	-8450	-2423	-28
Underlying Outlays (\$m)	136798	137034	236	137398	143350	148501
<i>Real growth on previous year (%)</i>	0.5	1.1	0.6	-2.2	1.8	1.1
<i>Underlying Outlays (% of GDP)</i>	26.6	26.8	0.2	25.3	24.9	24.4

(a) Figures differ from estimates published in the 1996-97 Budget due to classification changes introduced since the 1996-97 Budget. See footnote (b) to Table 1 for further detail.

There are a number of adjustments made to Commonwealth budget statistics, to derive general government data.

- Budget data is adjusted for the treatment of finance leases consistent with Australian Accounting Standards 17 (AAS 17). Under that standard the asset and liability associated with a finance lease are brought to account in the financial records of the lessee. A finance lease is recognised where substantially all of the risks and benefits of ownership pass to the lessee. An example of this is the treatment of the proposed sale of DAS Fleet;
- Receipts by the Commonwealth of FBT payments by State governments have been reclassified from tax to non-tax revenue. This is because ABS view such payments as transfers within the Commonwealth and State general government sectors;
- Transfers of repatriation hospitals from the Commonwealth to the States have been recorded as Commonwealth capital grants to the States (a purchase of a capital asset has been recorded by the ABS in relevant State statistics); and

- There is also an adjustment to taxation revenue, where an amount of \$190 million has been removed from 1996-97 and put back into 1995-96, due to this amount actually being receipted at the tax office on 30 June 1996, but not being deposited into the CPA until early July. GFS considers this amount as received by the Commonwealth at the time it is receipted (accruals concept), while for budget purposes (cash concept), the money is only received by the Commonwealth when the cash actually lands in the bank account.

There have been several significant changes in the estimates since the 1996-97 Budget. Most of the differences can be explained by the change in the methodology. Other differences are due to an omission in the data at budget time of a change in Current Grants to Other Governments of \$312 million, and in Capital Grants to Other Governments of \$151 million. Personal Benefits Payments have decreased by \$400 million due primarily to revision of the Health Insurance Commission's estimate of amounts to be paid in 1996-97. Final Consumption Expenditure has increased by \$338 million, one third of which can be attributed to the budget sector. The remainder is attributed to the change in methodology used to aggregate the nonbudget data.

Table 13: Changes to General Government Outlays by Economic Type Since the 1996-97 Budget (\$m)

	1996-97			1997-98	1998-99	1999-00
	Budget(a)	MYR	Difference	MYR	MYR	MYR
CURRENT OUTLAYS						
Final Consumption Expenditure	26887	27225	338	27132	27329	27951
Current Transfer Payments						
Interest	9884	9952	68	10006	9942	9352
Subsidies	3343	3251	-92	3105	3112	3079
Personal Benefit Payments	56387	55977	-410	57982	60628	63999
Grants to Non-Profit Institutions	2777	2798	21	2815	2892	2953
Grants to Other Governments	32583	32895	312	33079	34192	35793
Grants Overseas	1173	1173	0	1164	1191	1241
Other Transfers	33	50	17	64	65	68
Total Current Transfer Payments	106180	106096	-84	108216	112023	116486
TOTAL CURRENT OUTLAYS	133067	133321	254	135348	139352	144436
CAPITAL OUTLAYS						
Gross Capital Formation (b)	975	909	-66	323	776	357
Net Land and Intangible Assets	80	-7	-87	-677	-18	-22
Capital Transfer Payments						
Grants to Public Trading Enterprises	8	36	28	0	0	0
Grants to Other Governments	2548	2699	151	2534	2513	2468
Grants to Other Sectors	177	120	-57	88	99	81
Total Capital Transfer Payments	2733	2855	122	2622	2612	2550
Net Advances						
To PTE Sector	-843	-850	-7	-751	43	-1
To Other Governments	-953	-953	0	-886	-197	-1252
To Other Sectors	-4126	-4125	1	-6814	-2269	1225
Total Net Advances	-5922	-5928	-6	-8450	-2423	-28
TOTAL CAPITAL OUTLAYS	-2134	-2172	-38	-6181	946	2857
Contingency Reserve (c)	-57	-43	14	-219	628	1180
TOTAL OUTLAYS	130876	131106	230	128948	140926	148473
TOTAL UNDERLYING OUTLAYS (d)	136798	137034	236	137398	143350	148501

- (a) Figures differ from estimates published in the 1996-97 Budget due to classification changes introduced since the 1996-97 Budget. See footnote (b) to Table 1 for further detail.
- (b) Gross Capital Formation covers the purchase of new fixed assets, purchases less sales of secondhand fixed assets and stocks.
- (c) An allowance for parameter revisions which could not be included in the detailed estimates.
- (d) Current outlays plus capital outlays less net advances plus contingency reserve.

REVENUE

Budget Sector Revenue

Table 17 compares the 1996-97 Budget and Mid Year Review revenue estimates for 1996-97 to 1999-00.

Table 14: Decisions and Other Sources of Variations to Budget Sector Revenues Since the 1996-97 Budget

	1996-97 \$m	1997-98 \$m	1998-99 \$m	1999-00 \$m
Total Revenue at 1996-97 Budget	130160	137063	145322	155729
Changes from 1996-97 Budget to Mid Year Review				
Revision to parameters and other variations	-1345	-3459	-3517	-4300
Policy Decisions	-42	-93	-107	-116
Total Revenue at Mid Year Review	128773	133511	141698	151313
<i>Effect of Senate rejecting/amending measures (a)</i>	-29	-133	-110	-104
Change to Budget Revenue \$m	-1387	-3552	-3624	-4416
Change to Budget Revenue %	-1.1%	-2.7%	-2.6%	-2.9%

(a) Where the Government has accepted a Senate rejection or amendment of a budget measure the fiscal impact is included as a policy decision. Where the Government has not accepted the Senate's actions the fiscal impact is included in other variations.

Forecast 1996-97 revenue collections have been revised down from those contained in the 1996-97 Budget. Revenue is now expected to grow by 5.8 per cent or \$7,113 million in 1996-97, compared with 7.0 per cent or \$8,500 million at budget time. The slower growth in 1996-97 flows through to the outyear projections.

The slower growth in 1996-97 largely reflects a downward revision to estimated company tax revenues. This downward revision is based on company income tax collections to date this year, which are running significantly behind the budget time estimates. Because of the payment arrangements in place, company tax collections at this stage of the year normally provide a reliable indicator of collections for the year as a whole.

Company tax collections in the 1996-97 year relate to company income of the previous (1995-96) year. A factor in the shortfall in company tax collections appears to be corporate tax planning, to a greater extent than anticipated, undertaken in response to the change in the company tax rate from 33 per cent to 36 per cent that occurred in the 1995-96 income year. This planning has involved the bring forward of net income to take advantage of the lower rate and deferring the recognition of accumulated tax losses until the 36 per cent tax rate came into effect; this has increased 1994-95 taxable income at the expense of 1995-96 taxable income, resulting in lower collections in 1996-97.

Over time, the opportunities for these planning activities should pass and company tax revenues increase. However, the company tax revenue shortfall is also indicative of some decline in the company tax base which can be expected to affect outyears

estimates. Consequently, while some recovery in company tax revenues is provided for in the estimates, overall company tax revenue estimates are still markedly lower than estimated at budget time.

Lower inflation than forecast at budget time and a more favourable outlook for wages have reduced revenue arising from fiscal drag. In addition slightly lower forecast consumption has reduced expected revenue from sales tax and excise.

Decisions taken since budget time reduce revenue by \$42 million in 1996-97 with impacts on the outyears. Details of these decisions are set out in Table 18. The actions of the Senate have reduced revenue by \$376 million over the four years. Details of measures affected by the Senate's actions are set out in Table 19.

Table 15: Policy Decisions Taken Since the 1996-97 Budget^(a)

Measure	1996-97	1997-98	1998-99	1999-00
	\$m	\$m	\$m	\$m
CGT Rollover Relief for Small Business	-	-	-50	-55
Thin Capitalisation	-	-
Low income aged persons	-10	-1	15	-
Telecommunication Equipment	-	-	-	-
R&D: Syndication Arrangements	-	-15	-5	-5
R&D: Registration Procedures	-5	-5	-	-
Exemption of Income Derived by Bona-Fide Prospectors	-5	-33	-20	-5
Deductions allowable to a co-operative company for repayment of Government loans	-	-4	-7	-10
Fees in Commonwealth Courts and Tribunals	-4	-5	-8	-8
Revised Licence Fee Arrangements for Commercial Broadcasters	-	-
Funding for Radiofrequency Electromagnetic Energy Public Health Issues	1	1	1	1
Changes to the Migration Program	-16	-25	-26	-27
Increased Cost Recovery in the Adult Migrant English Programme	-2	-6	-7	-7
Total	-42	-93	-107	-116

(a) Includes actions by the Senate accepted by the Government (Table 19).

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Table 16: Impact on Revenue of Senate Rejection/Amendment of Budget Measures

	1996-97	1997-98	1998-99	1999-00
	\$m	\$m	\$m	\$m
R&D: Syndication Arrangements	-	-15	-5	-5
R&D: Registration Procedures	-5	-5	-	-
Exemption of Income Derived by Bona-Fide Prospectors	-5	-33	-20	-5
Deductions allowable to a co-operative company for repayment of Government loans	-	-4	-7	-10
Changes to the Migration Program	-16	-25	-26	-27
Increased Cost Recovery in the Adult Migrant English Program	-2	-6	-7	-7
Medical Expenses Rebate - Increased Threshold	-	-45	-45	-50
Total	-29	-133	-110	-104

1996-97 Estimates

Detailed revenue estimates for 1996-97 are presented in Table 20.

The significant downward revision to forecast company income tax revenue (as discussed earlier) represents the largest detraction from revenue. Revisions to sales tax, petroleum products excise duty, gross PAYE and other individuals income tax forecasts also contribute to the downward revision to revenue. The sales tax revisions reflect lower forecasts of consumption of taxable products and lower inflation. The petroleum excise revisions reflect both forecast lower demand for petroleum products and lower forecast production of crude oil and LPG. The revision to the gross PAYE forecasts reflect, in part, lower forecast wages growth partly offset by higher employment growth.

These downward adjustments are partly offset by upward revisions to forecast petroleum resource rent tax and superannuation funds tax collections. The higher PRRT revenue forecast reflects the settlement of the dispute between the Victorian government and the Bass Strait producers but is largely offset by higher outlays reflecting the payment of \$556 million to the Victorian Government as a one-off payment to fulfil the Commonwealth's obligations under the Deed for the Return of Tax Payments between Victoria and the Commonwealth.

Table 17: Revenue Estimates

	1996-97			
	Budget	MYR	Difference	
	Estimate	Estimate	\$m	%
Taxation Revenue				
Income Tax				
Individuals -				
Gross PAYE	57700	57550	-150	-0.3
Gross Other (a) (b) (c)	10290	10180	-110	-1.1
Gross Prescribed Payments System (c)	2200	2200	0	0.0
Medicare Levy	4060	4060	0	0.0
Refunds (d)	8310	8260	-50	-0.6
Total Individuals	65940	65730	-210	-0.3
Companies (a) (c)	19700	18100	-1600	-8.1
Superannuation Funds (a)	1800	2190	390	21.7
Withholding Tax	1170	1200	30	2.6
Petroleum Resource Rent Tax	840	1260	420	50.0
Fringe Benefits Tax	3180	3180	0	0.0
Total Income Tax	92630	91660	-970	-1.0
Indirect Tax				
Sales Tax	13890	13620	-270	-1.9
Excise duty -				
Petroleum Products, Crude Oil and LPG	10750	10620	-130	-1.2
Other	2610	2610	0	0.0
Customs Duty - Imports	3010	3010	0	0.0
Total Indirect Tax	30260	29860	-400	-1.3
Other Taxes, Fees and Fines	2138	2117	-21	-1.0
Total Taxation Revenue	125028	123638	-1391	-1.1
Non-Tax Revenue				
Interest	1123	1128	6	0.5
Dividends and Other	4009	4007	-3	-0.1
Total Non-Tax Revenue	5132	5135	3	0.1
TOTAL REVENUE	130160	128773	-1387	-1.1

(a) Includes tax on realised capital gains.

(b) Includes Child Support Trust Account receipts (\$416 million in 1996/97).

(c) Includes revenue and compliance impact of the Repatriated Payments System.

(d) Includes refunds of Child Support Trust Account receipts (\$10 million in 1996/97).

Forward Estimates of Revenue

Estimates of the major categories of revenue, for 1996-97 to 1999-00, are shown in **Error! Reference source not found.**

The main influences on the forward estimates of revenue are the significant downward revision in company tax revenue forecasts for 1996-97, changes in the projected growth rates in key economic variables and the revenue measures taken since the 1996-97 Budget.

The expected fall in Other Income Tax in 1997-98 reflects the fact that collections in 1996-97 were boosted by a one-off bring forward of company tax revenue reflecting changed company tax payment arrangements.

Revenue is still expected to grow steadily in the years to 1999-00, on the basis of projected economic growth over the forward estimates period. However, revenue growth is expected to be slightly lower than at budget time, and revenue is expected to decline slightly as a proportion of GDP until 1998~~99~~. The slower growth reflects:

- weaker projected growth in major economic parameters, especially prices and wages, underlying the revenue estimates; and
- revenue decisions taken since the 1996-97 Budget including those resulting from the actions of the Senate.

Table 21: Revenue Estimates

	1996-97			1997-98			1998-99			1999-00		
	Budget	MYR	Change on:	Budget	MYR	Change on	Budget	MYR	Change on	Budget	MYR	Change on
	\$ billion	\$ billion	1995-96 per cent	\$ billion	\$ billion	1996-97 per cent	\$ billion	\$ billion	1997-98 per cent	\$ billion	\$ billion	1998-99 per cent
Individuals Tax	65.9	65.7	8.8	71.0	70.1	6.6	76.3	75.2	7.3	83.1	81.4	8.1
<i>Per cent of GDP</i>	12.8	12.8		13.0	12.9		13.2	13.1		13.5	13.4	
Other Income Tax	26.7	25.9	3.5	27.4	26.0	0.1	28.9	27.4	5.5	30.6	29.2	6.5
<i>Per cent of GDP</i>	5.2	5.1		5.0	4.8		5.0	4.8		4.9	4.8	
Total Income Tax	92.6	91.7	7.2	98.3	96.0	4.8	105.2	102.6	6.9	113.7	110.5	7.7
<i>Per cent of GDP</i>	18.0	17.9		18.1	17.7		18.1	17.8		18.4	18.1	
Other Tax	32.4	32.0	3.5	34.5	33.2	3.8	36.0	35.0	5.3	37.9	36.6	4.8
<i>Per cent of GDP</i>	6.3	6.2		6.3	6.1		6.2	6.1		6.1	6.0	
Total Tax	125.0	123.6	6.3	132.8	129.2	4.5	141.3	137.6	6.4	151.6	147.2	7.0
<i>Per cent of GDP</i>	24.3	24.2		24.4	23.8		24.4	23.9		24.5	24.1	
Non-tax	5.1	5.1	-3.1	4.3	4.3	-17.0	4.1	4.1	-3.5	4.2	4.1	0.8
<i>Per cent of GDP</i>	1.0	1.0		0.8	0.8		0.7	0.7		0.7	0.7	
Total Revenue	130.2	128.8	5.8	137.1	133.5	3.7	145.3	141.7	6.1	155.7	151.3	6.8
<i>Per cent of GDP</i>	25.3	25.2		25.2	24.6		25.1	24.6		25.2	24.8	

General Government Revenue

Table 17 presents changes to 1996-97 revenue estimates for the Commonwealth budget sector. A corresponding table has not been presented for the general government sector as the only changes are for the following items:

- taxation revenue collected by Air Services Australia (a non-budget authority) for en-route navigation charges. It is estimated that \$298 million in regulatory fees will be collected in 1996/97; and
- non-taxation revenue from non-budget agencies collection of interest and dividends on investments. It is estimated that \$80million will be earned in 1996/97.