

# **UPDATED ECONOMIC AND FISCAL OUTLOOK**

FEBRUARY 2009

## **STATEMENT BY**

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AND

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ISBN 978-0-642-74503-3

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Printed by CanPrint Communications Pty Ltd

## FOREWORD

Given the sharp deterioration in economic conditions and the imperative to develop the Nation Building and Jobs Plan to support the economy, the Government has released the February 2009 *Updated Economic and Fiscal Outlook* (UEFO) to set out its revised fiscal strategy and an update of its economic forecasts and key fiscal aggregates.

The fiscal strategy statement in the UEFO is consistent with the *Charter of Budget Honesty Act 1998* (the Charter). The Charter provides a framework for the conduct of government fiscal policy that is based on public scrutiny of fiscal policy and performance. Consistent with this objective, the UEFO explains the impact of the global recession on the economic outlook and key fiscal measures. The Government will release a complete economic and fiscal outlook, including full financial statements and a statement of risks in the 2009-10 Budget.

The document contains:

- **Part 1: Overview** – contains summary information on key fiscal and economic indicators and outlook, together with an overview of the fiscal strategy.
- **Part 2: Nation Building and Jobs Plan: Building prosperity for the future and supporting jobs now** – contains information about the impact of the global recession on Australia and the Government's policy response.
- **Part 3: Economic outlook** – discusses the domestic and international economic forecasts that underpin the budget estimates.
- **Part 4: Fiscal strategy and outlook** – provides a discussion of the fiscal strategy and fiscal outlook, in addition to a summary of the factors explaining variations in the underlying cash balance, fiscal balance and net debt since the *Mid-Year Economic and Fiscal Outlook 2008-09* (MYEFO). This part also contains a list of policy decisions taken since the 2008-09 MYEFO that affect revenue, expenses and capital estimates.



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## Notes

- (a) The following definitions are used in the UEFO:
- 'real' means adjusted for the effect of inflation;
  - real growth in expenses is measured by the non-farm Gross Domestic Product (GDP) deflator;
  - one billion is equal to one thousand million; and
  - the budget year refers to 2008-09, while the forward years refer to 2009-10, 2010-11 and 2011-12.
- (b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:
- estimates under \$100,000 are rounded to the nearest thousand;
  - estimates \$100,000 and over are generally rounded to the nearest tenth of a million;
  - estimates midway between rounding points are rounded up; and
  - the percentage changes in statistical tables are calculated using unrounded data.
- (c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.
- (d) The following notations are used:
- |         |   |
|---------|---|
| *       | The nature of this measure is such that a reliable estimate cannot be provided. |
| NEC/nec | not elsewhere classified  |
| -       | nil   |
| 0       | nil   |
| ..      | not zero, but rounded to zero   |
| ~       | allocation not yet determined   |
| na      | not applicable (unless otherwise specified)                                     |
| nfp     | not for publication   |
| \$m     | \$ million  |
| \$b     | \$ billion  |

- (e) The Australian Capital Territory and the Northern Territory are referred to as 'the Territories'. References to the 'States' or 'each State' include the Territories. The following abbreviations are used for the names of the States, where appropriate:

NSW	New South Wales
VIC	Victoria
QLD	Queensland
WA	Western Australia
SA	South Australia
TAS	Tasmania
ACT	Australian Capital Territory
NT	Northern Territory



# PART 1: OVERVIEW

## INTRODUCTION

The outlook for the global economy has deteriorated sharply since the *Mid-Year Economic and Fiscal Outlook 2008-09* (MYEFO). The IMF has cut its forecast for global growth three times and is now forecasting a deep global recession.

The global financial crisis has driven almost all major advanced economies into recession – including the United States, United Kingdom, Euro area and Japan. In our region, Hong Kong, Singapore and New Zealand are also in recession. No economy is expected to escape the effects of the global financial crisis.

Advanced economies are expected to experience the sharpest collective decline in GDP in the post-war period. The key emerging economies of China and India are now expected to slow markedly. The global commodity boom which has provided significant stimulus to Australian growth and incomes over recent years is unwinding.

The weight of the global recession is now bearing down on the Australian economy. Growth is expected to be significantly weaker than previously anticipated and unemployment will be higher. That is why the Government is announcing a \$42 billion Nation Building and Jobs Plan to provide immediate support for jobs and growth. Without this significant and timely policy stimulus, Australia would face a more severe slowdown than forecast. With the Nation Building and Jobs Plan, economic growth is only expected to slow to 1 per cent in 2008-09 and  $\frac{3}{4}$  of a per cent in 2009-10. With slower growth, the unemployment rate is forecast to rise to 7 per cent by June 2010.

The Nation Building and Jobs Plan has been crafted to strike the right balance between supporting growth and jobs now, and delivering the lasting investments needed to strengthen the economy for the future.

The global recession and unwinding of the commodity boom has also resulted in substantial downward revisions to government revenue. Just as rapid growth in the terms of trade since 2003-04 boosted revenues, which underpinned surpluses, falling commodity prices are now eroding revenue. Abstracting from new policy decisions, expected tax receipts have now been revised down by a total of around \$115 billion across the forward estimates since the 2008-09 Budget, with more than \$75 billion of this revision occurring since MYEFO.

As a result of the deteriorating global economy and consequent falling tax revenues, the budget is now expected to move into deficit. The Nation Building and Jobs Plan will temporarily add to this deficit as the Government increases spending to support growth and jobs. This is a necessary and responsible development as the automatic

stabilisers kick in to help moderate the downturn and the Government leverages its strong balance sheet to support the economy. Importantly, the Nation Building and Jobs Plan does not lock in a permanent increase in government spending.

These are exceptional circumstances and fiscal policy must take a strong role in supporting the economy.

As a result of a combination of lower revenue and the stimulus package, the underlying cash balance is now forecast to be a deficit of \$22.5 billion in 2008-09.

The Government's medium-term fiscal prospects remain sound. As soon as the economy recovers, and grows above trend, the Government will take action to return the budget to surplus.

Table 1.1 shows the fiscal and underlying cash balances for 2008-09 and the forward years. Further details on the accrual and cash budget estimates are provided in *Part 4: Fiscal strategy and outlook*.

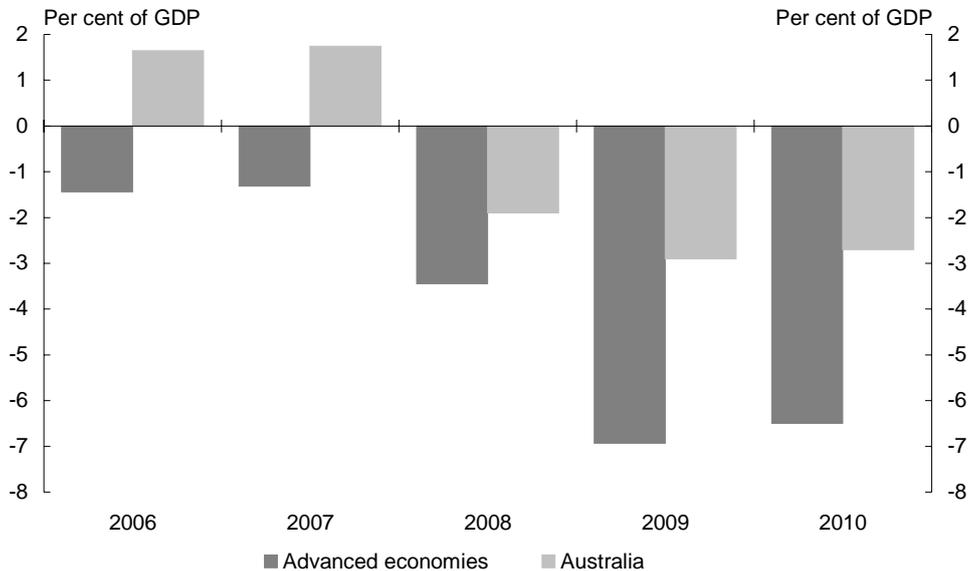
**Table 1.1: Summary of budget aggregates**

	Estimates			
	2008-09		2009-10	
	MYEFO	UEFO	MYEFO	UEFO
<b>Underlying cash balance (\$b)(a)</b>	<b>5.4</b>	<b>-22.5</b>	<b>3.6</b>	<b>-35.5</b>
Per cent of GDP	0.4	-1.9	0.3	-2.9
<b>Fiscal balance (\$b)</b>	<b>5.8</b>	<b>-22.4</b>	<b>7.1</b>	<b>-33.3</b>
Per cent of GDP	0.5	-1.9	0.6	-2.8
	Projections			
	2010-11		2011-12	
	MYEFO	UEFO	MYEFO	UEFO
<b>Underlying cash balance (\$b)(a)</b>	<b>2.6</b>	<b>-34.3</b>	<b>6.7</b>	<b>-25.7</b>
Per cent of GDP	0.2	-2.7	0.5	-1.9
<b>Fiscal balance (\$b)</b>	<b>6.7</b>	<b>-31.5</b>	<b>10.1</b>	<b>-23.9</b>
Per cent of GDP	0.5	-2.5	0.7	-1.8

(a) Excludes expected Future Funds earnings.

The Australian Government's budget remains in a much stronger position than that of most other countries. The underlying cash deficit forecast for 2008-09 of 1.9 per cent of GDP and for 2009-10 of 2.9 per cent of GDP compares to the average deficit of 7 per cent of GDP for advanced economies in 2009 as calculated by the IMF.

**Chart 1.1: Budgetary position for advanced economies 2006-10**



## **NATION BUILDING AND JOBS PLAN**

In the face of these extraordinary global conditions, the immediate and overriding priority for fiscal policy must be to support economic growth and jobs.

The Government is taking decisive action to strengthen growth and support jobs through a \$42 billion Nation Building and Jobs Plan. The Plan will help support and sustain up to 90,000 jobs over the next two years. The economic impact of the Plan is that GDP growth is expected to be around ½ per cent higher in 2008-09 and around ¾ to 1 per cent higher in 2009-10 than it would have been without the Plan. The forecasts are contingent on there being no further deterioration in global economic conditions. Should the global recession significantly worsen, the Government stands ready to take further action.

The Nation Building and Jobs Plan delivers a fiscal stimulus package of about 2 per cent of GDP in 2009.

The Nation Building and Jobs Plan complements the Government's \$10.4 billion Economic Security Strategy and builds on the long-term reforms agreed by the Council of Australian Governments and the Government's nation building agenda.

The Plan represents a landmark investment of \$28.8 billion in schools, housing, energy efficiency, community infrastructure and roads and support to small businesses.

- The Building the Education Revolution program will invest \$14.7 billion in primary school infrastructure and maintenance, secondary schools maintenance and to bring forward the funding of trade training centres.
- \$6.6 billion will be allocated to boost the national stock of community housing by 20,000 and for the construction of additional defence housing.
- The energy efficiency of Australian homes will be enhanced, contributing to reduced greenhouse gases, through a \$3.9 billion program to provide free ceiling insulation for home owners, additional assistance to landlords to install insulation as well as increasing solar hot water rebates for households.
- \$890 million will be allocated to repair regional roads and black spots, the installation of boom gates at rail crossings and regional and local government infrastructure.
- A \$2.7 billion Small Business and General Business Tax Break will assist small businesses and other businesses by supporting the bring forward and maintenance of their capital expenditure.

This direct investment in the nation's infrastructure will bring lasting benefits to the economy.

The Government will provide \$12.7 billion to deliver an immediate stimulus to the economy to support growth and jobs now before investment spending and lower interest rates take effect. These measures include an \$8.2 billion Tax Bonus for Working Australians, a \$1.4 billion Single-income Family Bonus, a \$20.4 million Farmer's Hardship Bonus, a \$2.6 billion Back to School Bonus and a \$511 million Training and Learning Bonus. These bonuses will be paid from early March.

## **FISCAL STRATEGY**

The Government remains committed to its medium-term fiscal strategy of:

- achieving budget surpluses, on average, over the economic cycle;
- keeping taxation as a share of GDP on average below the level for 2007-08; and
- improving the Government's net financial worth over the medium term.

These medium-term fiscal policy objectives anticipate that the Government will support economic growth and jobs by allowing the budget to move into deficit during an economic downturn.

To ensure that growth is supported in a way that is consistent with the medium-term fiscal strategy, the Government will:

1. *Support the economy: the fiscal strategy for 2008-09 and 2009-10*

As Australia enters an economic slowdown of uncertain extent and duration, it is important that the Government continues to support the economy by:

- allowing the variations in revenue and expenditure, which are naturally associated with slower economic growth, to drive a temporary underlying cash budget deficit; and
- using additional spending to deliver timely, targeted and temporary stimulus, with the clear objective of other budget priorities and new policy proposals being met through a re-prioritisation of existing expenditure.

2. *Return the budget to surplus: the fiscal strategy as the economy recovers*

The Government reaffirms its commitment to achieve budget surpluses, on average, over the economic cycle.

As the economy recovers, and grows above trend, the Government will take action to return the budget to surplus by:

- allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- holding real growth in spending to 2 per cent a year until the budget returns to surplus.

## **DOMESTIC AND INTERNATIONAL ECONOMIC OUTLOOK**

While the global economy has been slowing for some time, it is clear that the world is facing a much deeper and more protracted slowdown than previously anticipated. The effects of the global financial crisis on the real economy have been faster and more pervasive than many previously expected.

The world economy is expected to grow by just ½ of one per cent in 2009. Advanced economies are expected to experience the deepest recession since World War II. The key emerging economies of China and India, which are vitally important for Australia's growth prospects, are now slowing sharply.

The weakness in China will be particularly damaging for Australia since China has been the main driver of global growth over the past few years, pushing up commodity

prices, driving an investment boom and providing significant stimulus to Australian economic growth and national incomes. Large falls in the terms of trade are now expected, with key commodity prices forecast to reverse much of the gains from recent years.

With the global outlook having deteriorated substantially, the outlook for the Australian economy is significantly weaker than at MYEFO. Taking into account the fiscal stimulus measures in the Nation Building and Jobs Plan economic growth is expected to slow to 1 per cent in 2008-09 and  $\frac{3}{4}$  of a per cent in 2009-10.

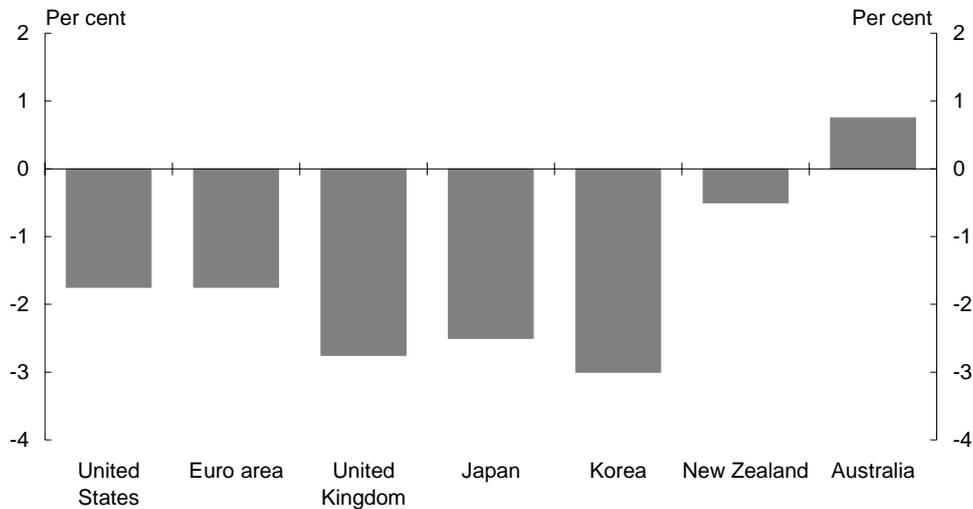
Even with this sobering prognosis, there remain significant downside risks. If the global recession is deeper and more protracted than expected, this would inevitably cause a more severe slowdown in Australia.

The global recession will mean higher unemployment in Australia as private sector spending slows. The Nation Building and Jobs Plan will support jobs by boosting household consumption, supporting private sector investment and providing additional public investment spending. To the extent that households save part of their payments and tax bonuses, this will help repair household balance sheets, provide a boost to confidence and support a return to more normal levels of consumption over time.

The Plan will help support and sustain up to 90,000 jobs over the next two years. Notwithstanding the solid boost provided by the fiscal stimulus, the unemployment rate is forecast to reach 7 per cent by June 2010.

While Australia cannot resist the pull of global economic forces, we are better placed than most other nations to face this global recession. The domestic slowdown is expected to be milder than in most of our major trading partners who are facing sharp contractions in GDP (Chart 1.2).

**Chart 1.2: Australia and major trading partner GDP growth (2009 forecast)**



Note: Australia data refer to forecasts for 2009-10.  
Source: Treasury.

Table 1.2 presents the major economic parameters used in preparing the *Updated Economic and Fiscal Outlook (UEFO)*. The parameters for 2008-09 and 2009-10 are forecasts, while those for 2010-11 and 2011-12 are projections.

**Table 1.2: Main economic parameters<sup>(a)(b)</sup>**

	Forecasts		Projections	
	2008-09	2009-10	2010-11	2011-12
Real GDP	1	3/4	3	3
Employment	1	- 3/4	1 1/4	1 1/4
Wage price index	4	3 1/2	4	4
CPI	2	2	2 1/2	2 1/2
Nominal GDP	6 3/4	0	5 1/4	5 1/4

(a) All parameters except the CPI are year average percentage changes. The CPI is through the year growth to the June quarter.

(b) The forecasts include the fiscal stimulus measures announced at the time of UEFO and assume an interest rate profile in line with market expectations at the time that the forecasts were prepared. The projections of economic growth are based on analysis of underlying trends in employment and productivity. With a sharp fall in key non-rural commodity prices included in the forecasts, the Budget and MYEFO assumption of a further fall in commodity prices during the projection years is no longer appropriate. The projections of inflation are consistent with the medium term target band.



## **PART 2: NATION BUILDING AND JOBS PLAN: BUILDING PROSPERITY FOR THE FUTURE AND SUPPORTING JOBS NOW**

There is a compelling case for further fiscal stimulus, to support jobs and growth.

The Government will deliver a \$42 billion Nation Building and Jobs Plan, providing a boost to the economy of around ½ per cent of GDP in 2008-09 and around ¾ to 1 per cent of GDP in 2009-10.

The Plan has been carefully designed to strengthen the future capacity of the economy, while at the same time providing immediate stimulus to the economy. It will help build Australia's future prosperity and support jobs and growth now.

The centrepiece of the Plan is \$28.8 billion in direct Government investment in schools, housing, energy efficiency, community infrastructure and roads and support to small businesses, mainly delivered in 2009-10 and 2010-11. In the interim, the Government will support economic growth by delivering \$12.7 billion in payments to low- and middle-income Australians. The plan will support up to 90,000 jobs over the next two years.

The plan is a rapid response to deteriorating global economic conditions. The global financial crisis has resulted in a global recession, the likes of which has not been seen in generations. This has led to an unprecedented and synchronised downturn in business and consumer confidence, which has become a broader economic crisis.

Doing nothing is not an option. It is becoming increasingly apparent that, while still important, monetary policy action alone will not be sufficient to restore growth in demand within a reasonable time period. The Government's swift action ensures that fiscal policy, along with monetary policy, is clearly targeted at supporting economic growth and jobs.

The Plan also continues the Government's commitment to equipping Australia to face the challenges of a 21<sup>st</sup> century economy.

As the global crisis has unfolded, the Government has stayed ahead of the curve, taking decisive and early action where necessary to strengthen the financial system, maintain stability, restore confidence and support jobs and growth. This has complemented the Government's ambitious reform agenda, including Council of Australian Government (COAG) reform, national broadband investment, the education revolution, and other microeconomic and regulatory priorities (see Attachment A).

To maintain stability and reinforce confidence in the financial sector, the Government has already:

- introduced government guarantees for deposits and for wholesale debt securities issued by authorised deposit-taking institutions;
- directed the Australian Office of Financial Management to purchase a total of \$8 billion of residential mortgage-backed securities; and
- announced measures to assist with car dealer financing and provide liquidity support to viable major commercial property projects in Australia (see Box 2.1).

### **Box 2.1: The Australian Business Investment Partnership**

The Government will establish the Australian Business Investment Partnership (the Partnership) as a temporary contingency measure to provide finance for commercial property, where traditional financiers withdraw from debt financing arrangements due to abnormal conditions in global capital markets.

The Partnership will initially be capitalised at \$4 billion, with the Government contribution of \$2 billion matched by an equal contribution from Australia's four major banks. The initial \$4 billion capitalisation could be extended via the issuance of government guaranteed debt to create up to \$30 billion in loanable capital.

The Partnership will only provide financing on fully commercial terms for commercial property where the underlying assets, and the income streams from those assets, are commercially sound.

The Partnership will support the commercial property assets of viable Australian businesses. Without financing, these businesses could be forced to retrench thousands of employees.

The commercial property sector employs about 150,000 people in Australia. Without action, a combination of weak demand and tight credit conditions could see up to 50,000 people in this sector lose their jobs, with flow on effects to jobs in other parts of the economy.

Small and medium size businesses which service the commercial property sector could also be devastated by weak demand and credit markets.

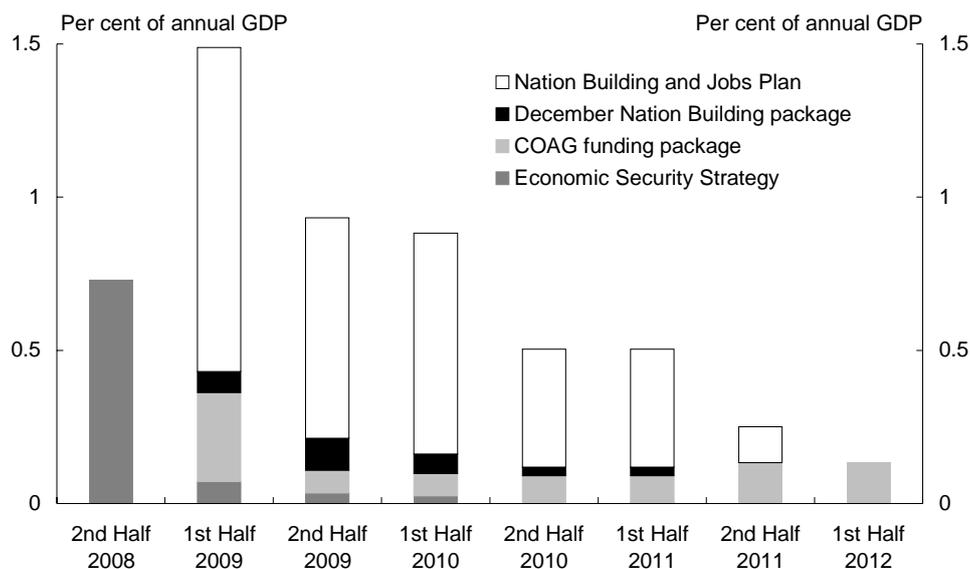
The Government is also leveraging its strong balance sheet to take the fiscal action that is necessary and responsible.

The \$10.4 billion Economic Security Strategy and the \$300 million program to build local community infrastructure is already providing support for growth in the short term.

To support long run productivity and growth, the Government has delivered a \$15.2 billion COAG package and the Nation Building package announced in December 2008 which will strengthen investment in road, rail, health and education infrastructure. Tax relief has been provided to assist Australian businesses.

Chart 2.1 shows the fiscal stimulus package provided by the Australian Government.

**Chart 2.1: Fiscal stimulus packages delivered by the Australian Government<sup>(a)</sup>**



(a) Impact on underlying cash balance as a per cent of annual nominal GDP.  
Source: Treasury.

Considerable reductions in interest rates, coupled with lower petrol prices and a 30 per cent depreciation in the Australian dollar since its peak in July last year, are also working to mitigate the impact of the global recession.

## THE DETERIORATING ECONOMIC ENVIRONMENT

### Developments in the world economy since MYEFO

In November 2008, the *Mid-Year Economic and Fiscal Outlook 2008-09* (MYEFO) outlined how the deterioration in the global financial system and the global economy had begun to impact on the Australian economy. Consumption, dwelling investment and business investment were identified as areas of concern.

The global economic outlook has drastically deteriorated since MYEFO. In the wake of the intensification of the financial crisis in September 2008, confidence has fallen and the inter-connected impacts of declining orders, production and employment have combined to produce the most extraordinarily synchronised slump in global economic

activity in decades. The December quarter 2008 is likely to have recorded the weakest quarterly global GDP performance since World War II.

In the most recent IMF *World Economic Outlook Update*, released on 28 January 2009, world growth is projected to fall to ½ per cent in 2009, the lowest rate in the post-war period. Output in advanced economies is expected to contract by 2 per cent in 2009, the first annual contraction since the IMF was established. In addition, growth in emerging and developing economies is expected to slow sharply, from 6¼ per cent in 2008 to 3¼ per cent in 2009. A particular concern for Australia is the accelerating downturn in China, with growth expected to decrease markedly in 2009.

Global equity markets remain volatile and have lost around US\$32 trillion in value since peaking in October 2007. Most major equity indices are close to their lowest levels in around five years.

These global developments are having an inevitable impact on the Australian economy.

### **Impact of the world downturn on Australia**

Although Australia has weathered the early stages of the global crisis better than most other countries, the global recession is now bearing down on the economy. Given the breadth and magnitude of the crisis now underway, no country will escape unscathed. Australia is no exception, and almost all sectors face a significantly weaker outlook as the impact of the worldwide falls in demand and confidence are felt in Australia.

Compounding the impact of the global recession on Australia is the sharp fall in global commodity prices, which have provided a substantial stimulus to economic growth and national incomes over recent years. Key bulk commodity prices have eased and are expected to lose much of the gains they have made over recent years as global demand slows sharply. The slowdown underway in emerging economies, particularly China and India, will therefore have inevitable implications for Australian exports.

The combination of all these effects means that Australia faces a much weaker outlook for economic growth than anticipated at MYEFO.

### **MACROECONOMIC POLICY IN EXTRAORDINARY TIMES**

The global recession will result in the Australian economy facing a deeper and more protracted period of weakness than previously anticipated. Macroeconomic policy has an important role to play to cushion the impact of these events on economic activity and employment in Australia. The most effective thing that can be done to support employment is to avoid a prolonged slowdown in demand.

The Reserve Bank has responded rapidly to changing economic circumstances by aggressively cutting interest rates over recent months.

In normal times, monetary policy is the main tool for stabilising the economy. But these are not normal times. Extraordinary times call for extraordinary macroeconomic policy measures. In the current circumstances, monetary policy action alone will not be sufficient to restore growth within a reasonable time period.

The extraordinary speed and scope of the deterioration in the global economy means that there is a much greater macroeconomic stabilisation role for discretionary fiscal policy than would normally be the case.

At this time, it is critical that the Government leverage its strong balance sheet position to support jobs and growth, and lay the foundations for recovery. Well-designed discretionary fiscal policy should work in conjunction with monetary policy to provide an immediate boost to demand. The most effective fiscal policy measures to achieve this in the current circumstances are those that can be implemented quickly and are targeted to those who are most likely to spend additional income.

Like the Economic Security Strategy, the Nation Building and Jobs Plan includes measures that can be implemented quickly, so that it will support growth through to June 2009, and has been targeted towards those low- and middle-income households who are most likely to spend additional income and who are most vulnerable during an economic slowdown. To the extent that these payments are saved rather than spent immediately, they will accelerate balance sheet repair and underpin consumption over time.

Where the economy is confronted with a more severe and prolonged downturn as a result of a significant external shock, well-designed discretionary fiscal policy can add directly to aggregate demand through direct government investment in the economy (for example, on capital works) that are able to be implemented quickly.

Like the Nation Building package announced in December 2008, the Nation Building and Jobs Plan includes measures that have been designed to provide a more sustained boost to demand over a longer period of time.

In total, the Plan will provide a boost to the economy of around  $\frac{1}{2}$  per cent of GDP in 2008-09 and around  $\frac{3}{4}$  to 1 per cent of GDP in 2009-10. The boost is necessary to support jobs and growth now and strengthen our economy for the future. The Plan is consistent with the Government's medium-term fiscal strategy and demonstrates the Government's commitment to deliver both long-term growth and sustainable fiscal policy.

## Designing the stimulus package

For discretionary fiscal stimulus to be effective in boosting the economy, there are several challenges to meet (see Box 2.2 below for a discussion of the literature). It is common to refer to the criteria of 'timely, temporary and targeted'.

- Measures need to be implemented swiftly so that the boost to demand occurs when it is most needed. In the current situation, this means including measures that take effect in the first half of 2009.
- The boost needs to fall away over time so that it no longer operates when it is not needed. Locking in long-term spending poses risks for inflation and interest rates as well as the Government's budget position. The Government's strategy for returning the budget to surplus is discussed in *Part 4: Fiscal strategy and outlook*.
- Spending needs to be targeted carefully so that it maximises the impact on GDP growth.

Discretionary fiscal stimulus should add to, rather than come at the expense of, investment in the long-term drivers of growth and productivity. The global recession and consequent spare capacity means there is scope to combine shorter-term stimulus measures to boost growth in jobs in 2009 with longer-term measures to boost productivity growth, improve social equity and accelerate the transformation to a lower-carbon economy.

With national economies more closely linked today than ever before, the effectiveness of any individual country's macroeconomic policy response depends upon what other countries are doing. As many countries are looking to fiscal policy to address the macroeconomic effects of the global recession, the benefits from improved coordination of macroeconomic policy responses are clear (see Box 2.3 for a summary of recent international calls for fiscal policy action).

The Nation Building and Jobs Plan delivers a fiscal stimulus package of about 2 per cent of GDP in 2009, laying the foundations for Australia's future growth while also playing our part in responding to a global challenge.

**Box 2.2: Best practice fiscal policy**

There have been numerous studies on the effectiveness of fiscal policy, particularly in the United States. These studies suggest that fiscal expansions have a multiplier effect on aggregate demand and output, with the value of the multiplier usually between 0.5 and 1, and increasing with the responsiveness of consumption to current income (for example, Hemming et al, 2002).

Typically in Australia, a 1 per cent of GDP stimulus adds 0.5 to 1 per cent to GDP growth and supports up to 75,000 jobs. As stimulus is reduced, the support for jobs is reduced.

Treasury has modelled the impact of the stimulus package on economic growth and jobs using their forecasting models. The modelling shows that the Nation Building and Jobs Plan is expected to boost GDP growth by around ½ per cent in 2008-09 and around ¾ to 1 per cent in 2009-10, supporting and sustaining up to 90,000 jobs over the next two years.

To ensure it provides the greatest possible support for jobs and growth, the Nation Building and Jobs Plan has been designed with the following principles in mind.

Where an immediate boost in demand is required, the most effective fiscal policy measures are those that can be implemented quickly and targeted to those who are most likely to spend additional income (that is, liquidity constrained households). On the other hand, when confronted with a prolonged downturn the most effective fiscal policy measures are those involving direct government investment in the economy that can be implemented quickly (for example, on capital works).

The wide range of results from different studies show that the effectiveness of a fiscal policy measure is highly dependent on the nature of the underlying economic circumstances and the implementation of the measure – which can occur through taxation, expenditure or a combination of both. It is difficult for any econometric study to account specifically for such factors and circumstances.

In the current environment, the IMF concludes that this uncertainty provides a strong argument for policy diversification (rather than relying on a single policy response).

In practice, the relative strengths of different arms of macroeconomic policy (that is, monetary policy and different arms of fiscal policy) mean that a combination of measures is likely to be the most effective: the monetary policy response determined by the Reserve Bank guided by a medium-term framework; and the shorter-term emphasis of fiscal policy, anchored in a medium-term framework, shifting from measures to support consumption to direct public investment as soon as practicable.

### **Box 2.3: International calls for fiscal stimulus**

International Financial Institutions and key economic bodies have called for countries to act decisively to implement significant fiscal stimulus.

In its latest *World Economic Outlook Update*, released on 28 January 2009, the International Monetary Fund stated that:

Monetary and fiscal policies need to become even more supportive of aggregate demand and sustain this stance over the foreseeable future, while developing strategies to ensure long-term sustainability.

In the press briefing explaining the update, Olivier Blanchard, the IMF's Economic Counsellor and Director of Research explained that:

On fiscal policy, many countries have announced and are already implementing sizable stimulus packages. The key here is to design packages which provide maximum boost to demand very soon. That tends to argue in the current context for measures focused on spending rather than taxes. Measures focused on taxes tend to have less effect in the short run than measures which increase spending.

On 15 November 2008, G20 leaders committed to:

... use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability.

In the most recent *OECD Economic Outlook*, released on 25 November 2008, the OECD Chief Economist Klaus Schmidt-Hebbel argued that:

Against the backdrop of a deep economic downturn, additional macroeconomic stimulus is needed. In normal times, monetary rather than fiscal policy would be the instrument of choice for macroeconomic stabilisation. But these are not normal times. ... In this unusual situation, fiscal policy stimulus over and above the support provided through automatic stabilisers has an important role to play.

## NATION BUILDING AND JOBS PLAN: BUILDING PROSPERITY FOR THE FUTURE AND SUPPORTING JOBS NOW

The Nation Building and Jobs Plan will deliver \$42 billion to support economic growth and jobs in Australia. As a result of the Plan, GDP growth will be around ½ per cent higher in 2008-09 and around ¾ to 1 per cent higher in 2009-10. The Plan will also support and sustain up to 90,000 jobs over the next two years.

The Nation Building and Jobs Plan is intentionally large — it reflects the seriousness of the challenges being faced and the need to build a strong economy for the future. By avoiding measures that lock in long-term spending, the Government is well-positioned to take action to begin to return the budget to surplus as soon as the economy starts to recover.

**Table 2.1: Key components of the Nation Building and Jobs Plan**

	Underlying cash balance impact				Total
	2008-09	2009-10	2010-11	2011-12	
<b>Building prosperity for the future</b>					
Building the Education Revolution	-987	-8,624	-5,109	0	<b>-14,720</b>
20,000 Social and Defence Homes	-260	-4,274	-1,794	-312	<b>-6,640</b>
Energy Efficient Homes	-39	-1,540	-1,544	-736	<b>-3,859</b>
Small Business and General Business Tax Break	0	-840	-1,350	-515	<b>-2,705</b>
Black Spots, Boom Gates and Community Infrastructure	-480	-410	0	0	<b>-890</b>
<b>Sub-total</b>	<b>-1,766</b>	<b>-15,687</b>	<b>-9,797</b>	<b>-1,563</b>	<b>-28,813</b>
<b>Supporting jobs now</b>					
Tax Bonus for Working Australians	-6,950	-1,201	0	0	<b>-8,151</b>
Single-income Family Bonus	-1,273	-147	0	0	<b>-1,420</b>
Farmer's Hardship Bonus	-20	0	0	0	<b>-20</b>
Back to School Bonus	-2,347	-271	0	0	<b>-2,618</b>
Training and Learning Bonus	-413	-98	0	0	<b>-511</b>
<b>Sub-total</b>	<b>-11,004</b>	<b>-1,717</b>	<b>0</b>	<b>0</b>	<b>-12,721</b>
<b>Total Stimulus Package</b>	<b>-12,770</b>	<b>-17,404</b>	<b>-9,797</b>	<b>-1,563</b>	<b>-41,534</b>

### Building prosperity for the future

Measures involving the direct purchase of goods and services by Government will add directly to demand and have significant scope to boost economic growth and support jobs. In particular, where public sector capital works and infrastructure projects can be implemented quickly, they are likely to prove very effective in boosting demand and increasing employment over the next couple of years, while also adding to the productive capacity of the economy in the longer term.

While some smaller capital projects can be commenced in 2008-09, given the lead time involved most larger projects will not commence until 2009-10.

Several of these measures will be delivered in partnership with the States. It is vital that the additional funding being provided to the States flows into the economy quickly and is not used by the States to reduce their own spending effort in the relevant sectors. The Government will ensure that the States maintain their own expenditure through each State reporting to the Ministerial Council on Federal Financial Relations against benchmarks for their expenditure in each of the sectors. Where the Ministerial Council finds that a State fails to meet its expenditure benchmark, it will report that finding to COAG and consideration will be given to reallocating the funding to ensure that it flows into the economy as intended.

### **Building the Education Revolution**

The stimulus package includes \$14.7 billion over three years for the Building the Education Revolution program. Funding of \$12.4 billion over three years is available for the construction of assembly halls, 21<sup>st</sup> Century libraries, indoor sports centres, performing arts centres and similar major improvements for all Australian primary schools, including combined schools and special schools.

This is a significant investment in the education, skills and training of our young people which will boost the productivity and prosperity of our nation for future generations. It will improve the capacity of Australian schools to deliver high-quality educational outcomes. The Building the Education Revolution program will be structured as an agreement with the States and Territories and the non-government sector to provide extra funding for capital infrastructure for schools, over and above all existing and planned investments.

The funding allocations provide up to \$250,000 for small primary schools (up to 50 students), up to \$850,000 for schools with 51 to 150 students, up to \$2 million for schools with 151 to 300 students, up to \$2.5 million for schools with 301 to 400 students and up to \$3 million for larger primary schools (more than 400 students) for capital expenditure projects. The Government expects completed facilities to be accessible to communities in which schools are located.

Further funding of \$1.0 billion in 2009-10 will be available for the construction of science and language laboratories in secondary schools. Funding will be allocated to up to 500 schools on the basis of assessed need for new or upgraded facilities.

Primary and secondary schools will also be able to apply for funding for minor maintenance and infrastructure of up to \$50,000 for small schools (up to 50 students), up to \$75,000 for schools with 51 to 150 students, up to \$125,000 for schools with 151 to 300 students, up to \$150,000 for schools with 301 to 400 students and up to \$200,000 for larger schools (more than 400 students). This will inject much needed money into local communities whilst improving the learning environment for our children today, and is estimated to cost \$1.3 billion over two years.

## Building Trade Training Centres

The Government will also bring forward \$110 million of funding for the Trade Training Centres in Schools Program, from 2010-11 to 2009-10. This will provide additional support for the economy now, and also fast-track measures to improve the skills base of the workforce and improve productivity for the future.

The \$2.5 billion Trade Training Centres in Schools Program is an application based National Partnership with the States and Territories to provide facilities to enhance vocational education opportunities for students in Years 9 to 12 in every school. Trade Training Centres will help increase the number of students achieving Year 12 or an equivalent qualification and help address skill shortages in traditional trades and emerging industries.

The Trade Training Centres in Schools Program has received an outstanding response from schools across the country. Bringing forward this funding will accelerate the building and upgrading of trade workshops, computer laboratories and other facilities for vocational education.

## **20,000 Social and Defence Homes**

### Public and Community Housing

The Commonwealth Social Housing Initiative will provide up to \$6.0 billion to fund the construction of approximately 20,000 new public and community housing dwellings, to be largely completed by December 2010.

This is a significant investment in our future that will improve social equity by greatly accelerating progress on the goal of halving homelessness by 2020 and by reducing the number of low-income households paying more than half their income in rent.

The first stage of this program is to fund some 2,300 new dwellings by bringing forward construction already approved. The remainder of the funding will be allocated to address areas of most urgent need. State governments will be responsible for conducting Commonwealth approved tender processes for the construction of the additional dwellings. Tenders will be structured to include spot purchases of new house and land packages to ensure both large and small builders benefit from increased construction activity.

This initiative will also require the states to deliver reforms to public and community housing to improve efficiency, reduce the concentration of stock and promote economic participation.

The Commonwealth Social Housing Initiative will also provide an important stimulus to the housing construction sector, in addition to other stimulus, which will translate into about 15,000 jobs over the next two years.

The program also provides up to \$400 million for repairs to existing public housing dwellings to be undertaken in 2008-09 and 2009-10, which will allow around 2,500 dwellings to be retained in public housing that would otherwise have been sold.

#### **Defence Homes**

The Government will also provide \$252 million to Defence Housing Australia (DHA) to construct 802 new dwellings in metropolitan and regional centres, with building commencing in April 2009 and running through to March 2011. The 802 new dwellings are additional to DHA's existing three year capital expenditure program (2008-09 to 2010-11) of \$1.2 billion.

These additional dwellings will sustain DHA's ability to meet housing requirements for Australian Defence Force personnel and their families. The proposed construction program would be carried out in a number of regional and metropolitan centres across Australia.

In addition to assisting Australian Defence Force personnel and their families, this program will provide a further stimulus to the housing construction sector.

#### **Energy Efficient Homes**

The Energy Efficient Homes program will deliver free ceiling insulation and installation for Australian home owner-occupiers. Ceiling insulation is among the most cost-effective energy improvements that can be made, providing real tangible and immediate benefits to all Australian households and helping to tackle climate change. Combined with regulation ensuring all new homes have appropriate insulation, this program will ensure that virtually all homes can achieve a minimum 2-star energy rating.

The \$2.7 billion insulation program will result in insulation for up to 2.2 million homes (capped at \$1,600 per house) over three years, which will enable all uninsulated owner-occupied homes the opportunity to be insulated. Once installed, households could save around \$200 per annum on their electricity bills.

The insulation program is expected to create a significant number of new Australian jobs. These jobs require limited retraining and so the benefits to the community can be realised quickly.

The Government will also increase the existing solar hot water rebate to up to \$1,600, at an additional cost of \$507 million over three and a half years, for households that do not access the insulation program, to replace electric storage hot water systems with solar and heat pump hot water systems. The rebate will be made more broadly available, removing the existing means test.

Many of Australia's most vulnerable in society live in rental properties. For this reason, the Government will also double the maximum rebate for landlords who install

insulation in occupied rental properties under the existing Low Emissions Plan for Renters from \$500 to up to \$1,000, at an additional cost of \$613 million over two and a half years. The new Low Emissions Plan for Renters removes the cap on the number of households that can access the program and the previous cap on the contribution to insulation costs.

In addition to the savings on electricity bills for households, the Energy Efficient Homes program will invest in the future of Australia's environment by reducing cumulative greenhouse gas emissions by up to 49.4 million tonnes by 2020.

### **Small Business and General Business Tax Break**

The Government will provide an additional \$2.7 billion temporary tax break to small and other businesses to boost business investment.

Small businesses will be able to claim a 30 per cent deduction for the cost of eligible assets costing \$1,000 or more that they acquire from 13 December 2008 to 30 June 2009 and install by 30 June 2010.

For eligible assets costing \$1,000 or more that they acquire from 1 July 2009 to 31 December 2009 they can claim a 10 per cent deduction if they are installed by 31 December 2010.

Other businesses can receive the same deductions for eligible assets greater than \$10,000.

This trebles the investment allowance announced in December 2008.

### **Black Spots, Boom Gates and Community Infrastructure**

#### **Black Spot program**

The Black Spot program forms an important part of the Government's commitment to reduce accidents on Australian roads. In December 2008, the Government announced it would more than double Black Spot funding for 2008-09 from \$50 million to \$110 million. The Government will now invest an additional \$30 million in 2008-09 and a further \$60 million in 2009-10 to extend the coverage of this program. This will improve road safety and support jobs across Australia.

#### **Boom Gates for Rail Crossings**

The Government will provide \$150.0 million over two years to improve road safety by funding the construction of boom gates at rail crossings.

There are around 9,400 rail crossings across Australia, with the vast majority having no form of active protection. Projects will be prioritised using the Australian Level Crossing Assessment Model (ALCAM), a safety risk assessment tool used across Australia.

### Repairing Regional Roads

The Government will invest \$150 million in 2008-09 to repair regional roads across Australia. This program will fund State and Territory governments to repair roads in all regions, with funding to be focused on areas that have the largest backlog of eligible projects.

### Community Infrastructure

The Government will provide an additional \$500 million over two years to expand the Regional and Local Community Infrastructure Program – Strategic Projects. This program was established in November 2008 to fund larger-scale community infrastructure to help deliver an additional injection of investment in communities. The expanded investment will be allocated to projects that are successful in the current competitive process for which applications closed on 23 December 2008.

### Supporting Jobs Now

The Government will provide \$12.7 billion to deliver an immediate stimulus to the economy to support growth and jobs now, and implement measures to soften the immediate impact of the global recession on Australians.

Combined with payments to pensioners and families made in the Economic Security Strategy announced in October, these measures will provide widespread support to low- and middle-income households through bonus payments. Additional support and incentives will also be offered for people to engage in education and training.

The Government remains committed to long-term pension reform in the Budget.

### Tax Bonus for Working Australians

The Government will provide \$8.2 billion to eligible taxpayers as a Tax Bonus. The Bonus of up to \$950 will be paid to Australian residents who paid tax for the 2007-08 financial year after taking into account available tax offsets and imputation credits. The Bonus will benefit 8.7 million taxpayers.

The Bonus is subject to an income threshold. Eligible taxpayers will receive a bonus of:

- \$950 if their taxable income is up to \$80,000;
- \$650 if their taxable income exceeds \$80,000 to \$90,000; and
- \$300 if their taxable income exceeds \$90,000 to \$100,000.

The payments in respect of the 2007-08 tax return will begin from April 2009. Taxpayers will not need to apply. These payments will not be taxable or included as income for social security purposes.

### **Single-Income Family Bonus**

The Government will provide \$1.4 billion in 2008-09 for a \$950 one-off bonus payment to around 1.5 million families who, on 3 February 2009, are eligible for Family Tax Benefit Part B (FTB-B). For those families that receive fortnightly instalments of FTB-B, the Bonus will be paid automatically by Centrelink in the fortnight commencing 11 March 2009. The Bonus will not be taxable or included as income for social security purposes.

This payment is designed to provide additional assistance to families with children that have one main income earner and who may receive less benefit from the Tax Bonus than dual income families with similar household incomes who will be entitled to two Tax Bonuses.

### **Farmer's Hardship Bonus**

The Government will provide \$20.4 million in 2008-09 for a one-off bonus payment to farmers and small business owners receiving Exceptional Circumstances related income support. A lump-sum payment of \$950 will be made to people who, on 3 February 2009, are in receipt of these payments.

The payments will be made automatically by Centrelink in the fortnight commencing 24 March 2009, to approximately 21,500 recipients, providing additional support to groups of Australians who are in hardship. The Bonus will not be taxable or included as income for social security purposes.

### **Back to School Bonus**

The Government's \$2.6 billion Back to School Bonus will provide a one-off bonus of \$950 per school age child (age 4 to 18) to families who are eligible for Family Tax Benefit Part A as at 3 February 2009. The Bonus will not be taxable or included as income for social security purposes.

The Bonus will assist over 1.2 million families in meeting the cost of educating their children in these difficult times. In doing so, it will provide an immediate boost to consumption.

This support is in addition to that already provided through the Education Tax Refund.

### **Training and Learning Bonus**

The Government's \$511 million Training and Learning Bonus has two components.

First, it provides a one-off bonus of \$950 to students and to certain other income support recipients at 3 February 2009 to assist with education costs for the 2009 academic year. The payment will be made automatically by Centrelink in the fortnight commencing 24 March 2009.

Second, it provides a temporary additional incentive for eligible social security recipients to return to education and training (from 1 January 2009 until 30 June 2010). This incentive is in the form of a \$950 temporary supplement to the Education Entry Payment, which provides financial assistance to commence approved training and education courses. The Education Entry Payment will be temporarily available from 1 January 2009 to 30 June 2010 to people who have been receiving eligible benefit payments for one month or longer and also has been extended to Youth Allowance (other) recipients.

The Bonus will not be taxable or included as income for social security purposes.

### **Conclusion**

The Nation Building and Jobs Plan will help Australia ride out the worst of the global economic downturn. It will provide support to sustain key parts of our economy for the difficult months and years ahead. And it will reinforce our strengths for the future.

The Government is committed to taking responsible action to promote economic growth and protect Australian jobs during this difficult time, and laying the foundations for economic growth as we emerge from the global recession.

## **MICROECONOMIC AND REGULATORY REFORM**

The Government remains strongly committed to microeconomic reform that includes an ambitious better regulation and red tape reduction agenda. Regulatory and other structural reforms are critical complements to sound fiscal and macroeconomic policies. Better regulation enhances Australia's productivity and international competitiveness, deepening the supply potential of the economy, driving its ability to adapt faster and raising the potential growth rate.

The Government is delivering on its commitment to decisive action, initiating market reform on a broad front – reform that will enhance efficiency, improve competition and deal effectively with the quantity and complexity of regulation.

Reform initiatives already underway include:

- a review of the tax and transfer system (the Australia's Future Tax System review); labour market reforms including modern awards, reform of employment services and COAG initiatives to harmonise trade licensing and occupational health and safety arrangements; and the introduction of a national consumer law to replace nine separate laws;
- reform of financial regulation and reporting, including COAG initiatives in relation to mortgage broking, margin lending, non-lending deposits, registering business names, personal property securities and standard business reporting; and the reform of national markets for energy and water;
- providing for competition in the delivery of a high speed, fibre-based broadband network; and
- enhancing the efficiency of approvals processes including a review of the *Environment Protection and Biodiversity and Conservation Act 1999* and major reform of biosecurity arrangements.

The Government will continue to pursue opportunities for further reforms that align with its commitment to enhancing long term growth potential. The current range of initiatives underway will be extended on a number of fronts.

### **Major city planning arrangements**

Comprehensive and strategic planning for our major cities is essential in a modern economy. Without it, we will not have the capacity to maximise the efficiency of infrastructure investment, reduce transport and related costs, provide greater certainty, enhance productivity and sustain longer-term growth. We will work closely with state and territory governments to ensure that effective strategic plans are in place for all major cities.

### **Infrastructure planning reforms**

The Government is actively working towards achieving greater integration across all Australian governments in the delivery and planning of infrastructure. COAG has committed to identifying and removing blockages to productive investment in infrastructure. Infrastructure Australia has been established to coordinate infrastructure planning and investment in Australia, across governments and the private sector. The national Public-Private Partnerships (PPP) package, endorsed by COAG on 29 November 2008, is an important element of the Government's commitment to a long-term infrastructure strategy. It offers reform gains in terms of consistency and harmonisation across jurisdictions, and will benefit the community through offering better value for money, savings to governments and make it easier and less expensive for businesses to bid for PPP projects.

### **Export-related infrastructure**

COAG's 2006 *Competition and Infrastructure Reform Agreement* committed Commonwealth and state and territory governments to achieving a simpler and consistent national approach to the economic regulation of significant infrastructure, including ports and export-related infrastructure. In close cooperation with the States and Territories, the Government will act to ensure the effective implementation of the Agreement and explore options for further promoting the efficient investment in, and operation and use of, export-related infrastructure. The Government is developing a package of reforms, building on the COAG commitments, to enhance the operation of the National Access Regime for nationally significant infrastructure.

### **Review of pre-2008 Commonwealth regulation and legislation**

The Government will undertake a review of Commonwealth subordinate legislation and other regulation, to document those regulations which impose net costs on business and identify scope to improve regulatory efficiency.

### **Reform of legal profession regulation**

The regulation of the legal profession in Australia has been the subject of valuable reform in recent years, but there remains considerable scope for further improvement in current arrangements. Regulation of the legal profession remains overly complex and inconsistent. Inefficiencies exist in both the content of the law (for example, in the very complex rules on disclosure of costs and on arrangements for trust accounts) and in relation to the range of regulatory bodies across the States and Territories.

These regulatory inefficiencies lead to additional compliance costs for the legal profession and, ultimately, for consumers of legal services. There are significant efficiencies and cost savings to be gained through further reform of present arrangements and we will work closely with the States and Territories to pursue these reforms.

## **PART 3: ECONOMIC OUTLOOK**

The outlook for the world economy has deteriorated sharply since the *Mid-Year Economic and Fiscal Outlook 2008-09* (MYEFO), with a deep global recession now expected in 2009. Despite intervention to support financial markets and stimulatory monetary and fiscal policies, the global financial crisis has driven almost all major advanced economies into recession. The OECD is predicting the number of unemployed could rise by eight million people in advanced economies over the next two years.

It has also become clear that emerging economies will be more profoundly affected by the crisis than originally thought. In particular, the momentum provided to the world from China's rapid growth has dissipated in recent times. Downward revisions to China's growth prospects have contributed substantially to a weaker outlook for the world economy and to sharp falls in commodity prices.

Against this backdrop, the risk of Australia following the rest of the world into recession has intensified. GDP growth is expected to be weaker than forecast at MYEFO at 1 per cent in 2008-09 and  $\frac{3}{4}$  of a per cent in 2009-10, with very substantial fiscal and monetary policy responses only partially able to offset the impact of the global recession. The unemployment rate is now expected to rise to 7 per cent by June 2010. Without the significant and timely policy stimulus announced by the Government, Australia would face a more severe slowdown than forecast.

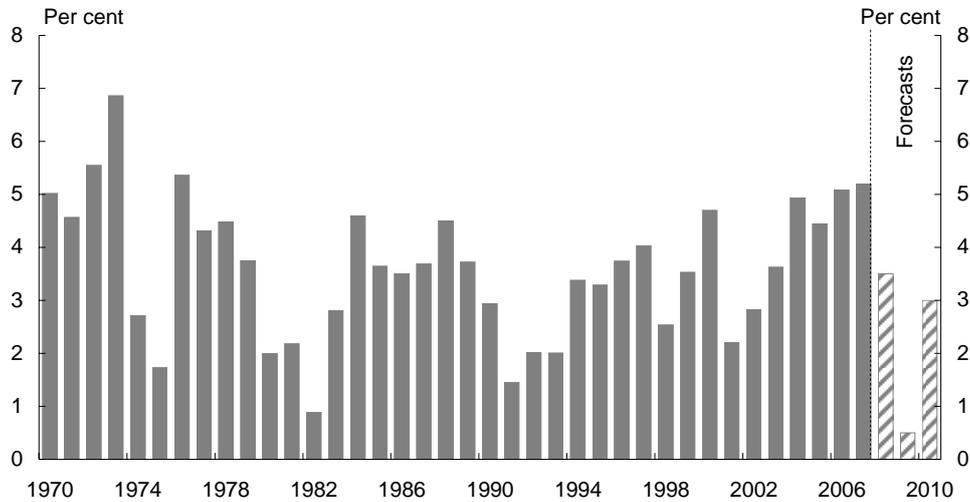
In view of the speed of developments in the global economy, the risk of weaker domestic growth outcomes remains. News of the effects of the global financial crisis on our major trading partners continues to emerge, and we are yet to see the full effect of the financial crisis on the global economy. A deeper or more prolonged recession than expected in the global economy would cause a more severe slowdown in Australia.

Given the pace of developments and the nature of the risks, governments around the world will need to remain vigilant and ready to respond rapidly to changing conditions.

### **INTERNATIONAL ECONOMIC OUTLOOK**

While the global economy has been slowing for some time, it is clear that it is facing a much deeper and more protracted slowdown than many previously anticipated. The world economy is expected to grow by just  $\frac{1}{2}$  of a per cent in 2009, the lowest rate of growth in decades (Chart 3.1). Advanced economies are expected to experience the sharpest collective decline in GDP in the post-war period. The key emerging economies of China and India were initially less impacted by the global financial crisis but are now increasingly affected by falls in global trade volumes. As a consequence, China and India are now expected to slow markedly in 2009.

**Chart 3.1: World GDP growth**



Source: IMF and Treasury.

In the wake of the intensification of the financial crisis in September 2008, the unfolding negative real economy impacts have been broad and rapid, with the December quarter 2008 likely to show the weakest quarterly global GDP performance in the post-war era. Weighted by economic size, around half of the world is already in recession – including the United States, United Kingdom, Euro area and Japan, as well as Hong Kong, Singapore, and New Zealand in our region.

**Table 3.1: International GDP growth forecasts<sup>(a)</sup>**

	Actual	Estimate	Forecasts	
	2007	2008	2009	2010
United States	2.0	1.2	-1 3/4	1 3/4
Euro area	2.6	0.8	-1 3/4	3/4
Japan	2.4	-0.2	-2 1/2	1
China(b)	13.0	9.0	6 1/2	8 1/4
India(b)	9.3	7.8	5 1/2	6
Other East Asia(c)	5.9	3.2	-1	3 3/4
Major trading partners	5.5	2.9	0	3 1/4
World	5.2	3.4	1/2	3

(a) World and Euro area growth rates are calculated using GDP weights based on purchasing power parity, while growth rates for major trading partners and Other East Asia are calculated using export trade weights.

(b) Production-based measures of GDP.

(c) Other East Asia comprises the Newly Industrialised Economies (NIEs), constituting Hong Kong, South Korea, Singapore and Taiwan, and the Association of Southeast Asian Nations group of five (ASEAN-5), constituting Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Source: National statistical publications, IMF and Treasury.

The magnitude and speed at which the financial shock has fed into the real economy has surprised economic forecasters around the world. The IMF has downgraded its forecasts of global growth three times in four months, bringing its forecast for global

growth in 2009 down from just under 4 per cent at the time of the 2008-09 Budget to ½ a per cent in its most recent update.

Half of Australia's top ten major trading partners are already in recession, with seven forecast to contract over 2009. Collectively, Australia's major trading partners are not expected to grow in 2009. Consistent with a modest world recovery next year, only ¾ per cent growth is forecast for major trading partners in 2010.

Notwithstanding considerable stimulus, very severe contractions are forecast for advanced trading partner economies in 2009. Recessions in the United States, Europe and Japan are set to deepen, with consumers facing falling wealth, restricted access to credit, and rising unemployment. In the United States, the unemployment rate has increased by 2.3 percentage points over 2008, an increase of almost 3.6 million persons.

In the key economies of China and India, growth is projected to slow markedly in 2009. China's economic growth is forecast to slow to ½ per cent in 2009. The slowdown is expected to be broadly based, with exports contributing significantly less to growth than in previous years. This region has been a key engine for world growth in recent years, and a driver of the commodity price boom from which Australia has benefited. In addition, falling export demand is expected to cause a further sharp GDP contraction in Korea and other Newly Industrialised Economies, further weakening the overall outlook for Australia's major trading partners.

Conditions in financial markets remain very fragile, although the risk of renewed stress and volatility has eased somewhat, aided by government interventions, including interest rate reductions, massive liquidity injections, extended loan facilities, capital injections and banking guarantees. However, ongoing adjustments to tighter credit conditions are proving challenging. Spillovers and contagion from further adverse financial market developments continue to pose significant risks. A further risk is that the gathering economic weakness will feed back into even weaker financial conditions.

To ameliorate the downturn, many governments have announced aggressive fiscal interventions, including packages aimed at boosting infrastructure, consumer spending and business investment. The aggregate size of these economic packages is large and unprecedented with more stimulus likely to come.

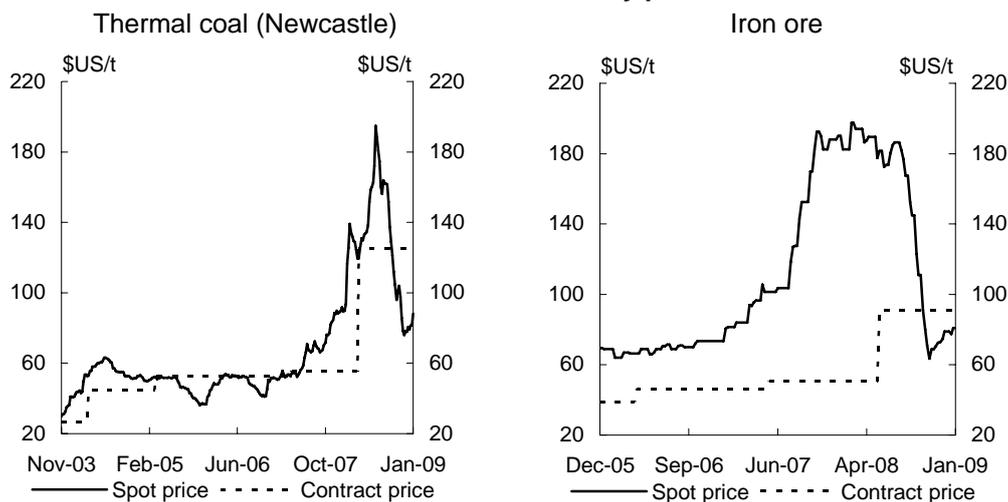
## **DOMESTIC ECONOMY FORECASTS**

The effect of the global recession on Australian economic growth is pervasive, with almost all sectors of the economy facing significant weakness over the forecast horizon. While the Economic Security Strategy was able to provide a well timed boost to growth in recent times, the further deterioration in global conditions has pushed the domestic forecasts down further. Overall the Australian economy is forecast to grow

by 1 per cent in 2008-09 and  $\frac{3}{4}$  of a per cent in 2009-10. The key domestic economy forecasts are summarised in Table 3.2.

The adverse effect of the broad-based weakness in the global economy is being reflected in lower commodity prices, which have provided significant stimulus to Australian economic growth and national incomes over recent years. In line with the sharp reduction in global demand, more substantial falls in commodity prices are expected than at MYEFO. Key bulk commodity prices are expected to lose much of their gains of recent years. Prices are expected to remain under pressure until the global economy, and China in particular, begins to recover. The terms of trade are now expected to fall by around 20 per cent over 2009, a much larger fall than expected at MYEFO. The weaker outlook for the terms of trade is reflected in a significantly weaker outlook for national incomes, with corporate profits expected to fall by  $9\frac{3}{4}$  per cent in 2009-10.

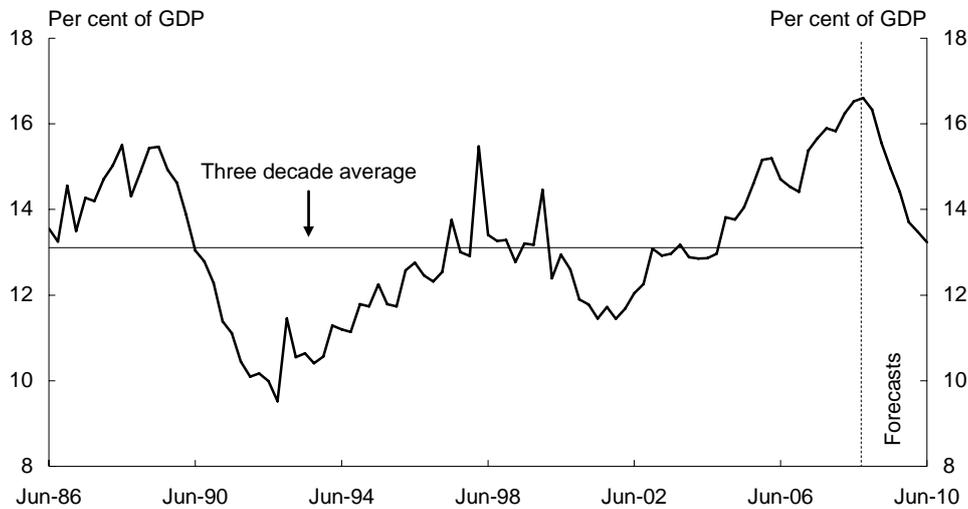
**Chart 3.2: Bulk commodity prices**



Note: Iron ore spot price is CFR for India/China imports.  
Source: Bloomberg and Global Coal.

There has been a marked deterioration in the outlook for business investment since MYEFO. A significantly weaker outlook for global and domestic demand and a weaker profits outlook have reduced much of the stimulus for investment that has prevailed over the last five years. Credit conditions for businesses continue to be tight and the cost of equity funding remains high. Consequently, as current projects are completed few new projects are being added to the pipeline, and a large number of projects have either been cancelled or postponed in light of the deteriorating economic outlook and lower commodity prices. Investment is now expected to fall by  $15\frac{1}{2}$  per cent in 2009-10.

**Chart 3.3: Business investment**



Source: ABS cat. no. 5206.0 and Treasury.

The Nation Building and Jobs Plan aims to counter the effects of falling business investment through measures to support private investors and a well timed boost to public investment which will strengthen the economy's capacity in the future. Incentives to boost private investment will be provided through the Small Business and General Business Tax Break. In addition, the Australian Business Investment Partnership, announced earlier in the year, will help to support investment by providing liquidity support to the commercial property sector. The Nation Building and Jobs Plan adds around \$17 billion to Commonwealth and State and local government investment over the forecast period. Public sector investment is providing support to growth over the forecast horizon, with public final demand expected to grow by 5½ per cent in 2008-09 and 7¼ per cent in 2009-10.

The outlook for household consumption has softened further since MYEFO, with household consumption expected to grow by 1¾ per cent in 2008-09. Households are facing significant falls in wealth, with asset values falling sharply over the past year. Australian share markets are down by a further 20 per cent since MYEFO and have halved in value since the peak in late 2007. House prices have also begun to moderate over the past six months. This is being compounded by a high degree of uncertainty around the duration and ultimate effect of the global financial crisis on wealth and employment, which has had a negative effect on sentiment.

In the face of heightened uncertainty, households may increase their savings and rebuild their balance sheets. Strengthening the financial position of households will help bolster confidence and lead to a more rapid recovery in household consumption.

Substantial fiscal and monetary policy stimulus is acting to support consumption. The Government's Economic Security Strategy is boosting household consumption over the December and March quarters particularly, and has been bolstered by substantial

monetary policy easing and lower petrol prices. The Nation Building and Jobs Plan will provide an additional \$12.7 billion to households in 2009, which will further boost consumption. Nevertheless, it is expected to be some time before household confidence improves and consumption recovers to the levels of recent years. As a result, consumption growth is forecast to be ½ of a per cent in 2009-10.

Dwelling investment is expected to recover somewhat over the forecast horizon, although near-term results are likely to be weak. Building approvals fell sharply at the end of 2008, a legacy of the high interest rates and low levels of confidence which prevailed over much of 2007-08. However, large interest rate cuts, strong underlying demand and the First Home Owners Boost for new houses are expected to support a recovery in dwelling investment in 2009-10, with growth expected to rise to 4 per cent. A downside risk to these forecasts is that confidence in the household sector remains low, exacerbated by uncertainty around unemployment levels.

The outlook for the external sector is weaker in 2008-09 driven by the sharp deterioration in the outlook for world growth. Net exports are expected to detract ½ of a percentage point from growth in 2008-09, before adding ¾ of a percentage point in 2009-10. The outlook for export growth has been revised down sharply to just ½ of a per cent in 2009-10. While some support will be provided by the depreciation of the Australian dollar, the broad based and pervasive weakness in growth across the world economy means that demand for Australia's exports will likewise be weak. Offsetting this in 2009-10 is the significantly weaker outlook for imports, which are expected to fall by 3 per cent in that year. The outlook is driven by the weakness in domestic demand, particularly the sharp slowdown in business investment, which relies heavily on imported capital goods.

In line with the significant slowdown in the domestic economy, employment is expected to contract through 2009 and remain weak in 2010. This will flow through to a substantial rise in the unemployment rate, which is expected to increase to 5½ per cent by June 2009 and 7 per cent by June 2010. The Government's Nation Building and Jobs Plan is expected to provide significant support to employment as the economy weakens. The Plan will support up to 90,000 jobs over the forecast period.

Inflation forecasts have decreased significantly since MYEFO, with both headline and underlying inflation expected to fall to 2 per cent by June 2010. Inflation is expected to ease on the back of weaker global growth and domestic demand, moderating wage pressures and substantially lower oil prices.

## DETAIL OF SECTORAL FORECASTS FOR THE AUSTRALIAN ECONOMY

**Table 3.2: Domestic economy forecasts<sup>(a)</sup>**

	Outcomes(b)	Forecasts		
	2007-08	2008-09		2009-10
		MYEFO	UEFO	UEFO
<b>Panel A - Demand and output(c)</b>				
Household consumption	3.7	2	1 3/4	1/2
Private investment				
Dwellings	1.4	0	-2	4
Total business investment(d)	14.2	5 1/2	1/2	-15 1/2
Non-dwelling construction(d)	11.2	1/2	-2	-18
Machinery and equipment(d)	16.0	8	2	-16 1/2
Private final demand(d)	5.5	2 1/2	3/4	-2 1/2
Public final demand(d)	4.6	3 1/2	5 1/2	7 1/4
Total final demand	5.3	2 3/4	1 3/4	- 1/4
Change in inventories(e)	0.2	- 1/4	- 1/4	0
Gross national expenditure	5.5	2 1/4	1 1/2	- 1/4
Exports of goods and services	4.3	6 1/2	1/2	1/2
Imports of goods and services	12.7	7	2 1/2	-3
Net exports(e)	-1.9	- 1/2	- 1/2	3/4
Real gross domestic product	3.7	2	1	3/4
Non-farm product	3.6	1 3/4	1	1/2
Farm product	8.5	13	11	5
Nominal gross domestic product	8.2	7 3/4	6 3/4	0
<b>Panel B - Other selected economic measures</b>				
External accounts				
Terms of trade	5.1	10 3/4	9	-12 3/4
Current account balance (per cent of GDP)	-6.2	-4 1/2	-3 3/4	-5 1/2
Labour market				
Employment (labour force survey basis)(f)	2.5	1/2	- 1/4	0
Unemployment rate (per cent)(g)	4.3	5	5 1/2	7
Participation rate (per cent)(g)	65.3	65	64 3/4	64 1/2
Prices and wages				
Consumer price index(f)	4.5	3 1/2	2	2
Gross non-farm product deflator	4.4	6	5 3/4	- 1/2
Wage price index(f)	4.1	4 1/4	3 3/4	3 1/4

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

(b) Calculated using original data.

(c) Chain volume measures except for nominal gross domestic product which is in current prices.

(d) Excluding second-hand asset sales from the public sector to the private sector.

(e) Percentage point contribution to growth in GDP.

(f) Through the year growth rate to the June quarter.

(g) Estimate for the June quarter.

Note: The domestic economy forecasts are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade weighted index of 55 and a United States dollar exchange rate of around 68 US cents. Interest rates are assumed to move broadly in line with market expectations. Oil prices (Malaysian Tapis) are assumed to remain around US\$45 per barrel. The farm sector forecasts are based on an assumption of average seasonal conditions in the future, but take into account current low water storage levels.

Source: Australian Bureau of Statistics (ABS) cat. no. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.



## **PART 4: FISCAL STRATEGY AND OUTLOOK**

### **THE GOVERNMENT'S FISCAL STRATEGY**

Given the extraordinary economic developments in recent months, the immediate and overriding priority for fiscal policy at the current time is to support economic growth and jobs. The Government is working to support domestic demand in the face of a global recession. This will necessarily impact on the Government's budget balance, moving the budget into a deficit position across the forward estimates.

Australia is much better placed than most other countries to undertake fiscal stimulus. In responding to the global recession with the economic stimulus package, the Government is meeting its commitment made by the G20 member countries, including Australia, to provide timely stimulus to domestic demand while maintaining a sustainable medium-term fiscal strategy.

As soon as the economy recovers and grows above trend, the Government will take action to return the budget to surplus as soon as practicable (without jeopardising the recovery). The Government will act to deliver savings in government spending. Australia's future economy will be strengthened by the investments being undertaken now, supporting future tax revenues and enhancing the economy's resilience.

### **Key elements of a sustainable framework**

The Government's medium-term fiscal policy strategy is:

- achieving budget surpluses, on average, over the economic cycle;
- keeping taxation as a share of GDP on average below the level for 2007-08; and
- improving the Government's net financial worth over the medium term.

The Government's fiscal strategy aims to ensure fiscal sustainability over the economic cycle. A sustainable fiscal position provides greater certainty for decision makers, supports broader economic sustainability, and requires a focus on policies which strengthen the structure of the economy – helping to secure future prosperity.

These medium-term fiscal policy objectives also provide sufficient flexibility for the Government to use fiscal policy to support jobs and growth. The medium-term strategy does not require that the budget remain in surplus in every year of the economic cycle.

The Government's Nation Building and Jobs Plan has been crafted with a view to striking the right balance between supporting demand in the short term, and delivering a sustained investment in the economy in the longer term. The Plan

promotes a sustainable economy, and through it sustainable government finances, by supporting medium term growth and productivity.

To ensure that growth is supported in a way that is consistent with the medium-term fiscal strategy, the Government will:

1. *Support the economy: the fiscal strategy for 2008-09 and 2009-10*

As Australia enters an economic slowdown of uncertain extent and duration, it is important that the Government continues to support the economy by:

- allowing the variations in revenue and expenditure, which are naturally associated with slower economic growth, to drive a temporary underlying cash budget deficit; and
- using additional spending to deliver timely, targeted and temporary stimulus, with the clear objective of other budget priorities and new policy proposals being met through a re-prioritisation of existing expenditure.

2. *Return the budget to surplus: the fiscal strategy as the economy recovers*

The Government reaffirms its commitment to achieve budget surpluses, on average, over the economic cycle.

As the economy recovers, and grows above trend, the Government will take action to return the budget to surplus by:

- allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- holding real growth in spending to 2 per cent a year until the budget returns to surplus.

**The immediate priority: supporting the economy**

As discussed in Part 3, there are challenging times ahead for the Australian economy. There is no quick fix to the global financial crisis, and many of its effects are yet to be fully felt.

The weakness in the Australian economy is expected to be broad-based. Household consumption, dwelling investment, business investment and exports are all forecast to be weak in 2008-09 and 2009-10. Business investment, which has held up well to date, is likely to decline sharply.

In this context, it is important that fiscal policy continues to bolster the economy. Discretionary fiscal policy will temporarily add to the deficit in order to support economic growth. Importantly it does not lock in a permanent increase in government spending.

### **Allowing the automatic stabilisers to support the economy ...**

A key element in the Government's medium-term strategy is that the budget balance should be able to vary in the short term with economic conditions.

The change in the economic outlook since the 2008-09 Budget has significant implications for the Budget. Abstracting from new policy decisions, expected tax receipts have now been revised down by a total of around \$115 billion across the forward estimates since the 2008-09 Budget, with more than \$75 billion of this revision occurring since *Mid-Year and Fiscal Outlook 2008-09* (MYEFO).

In particular, the dramatic slowing in China's growth is resulting in an unwinding of the commodities boom. Just as rapid growth in the terms of trade since 2003-04 boosted revenues that underpinned substantial surpluses, falling commodity prices are now eroding forecast revenues. Tax receipts as a share of the economy are now expected to fall from 24.6 per cent in 2007-08 to 23 per cent in 2008-09 and it is expected to be 23 per cent in 2011-12.

Were the Government to offset these variations it would be contributing to – rather than leaning against – the macroeconomic instability arising out of the global crisis. Allowing the automatic stabilisers to flow through to moderate the downturn is a necessary and responsible approach in the current circumstances. Leveraging the Government's strong balance sheet to support the economy is also appropriate at this time.

While the movements in the automatic stabilisers will result in the budget moving temporarily into deficit, Australia's fiscal position remains strong. This is particularly evident when our net debt situation is compared with that of other advanced economies.

### **... and providing further fiscal stimulus as required**

One of the reasons for maintaining a surplus when economic conditions are strong is to allow space for fiscal policy to support demand when conditions weaken.

Since September 2008, the Reserve Bank of Australia (RBA) has substantially lowered interest rates. In some other advanced countries, interest rates have already been reduced to very low levels. In comparison, there remains relatively more scope in Australia for the RBA to independently consider further interest rates reductions. However, given the extraordinary global circumstances, monetary policy action alone will not be sufficient to restore growth in a reasonable timeframe. Indebted households

and firms are using interest savings to restore their balance sheets and low confidence is muting the effect of low interest rates on consumer and business demand.

In this context, and as the prospect of an export-led recovery diminishes as our trading partners enter recession, fiscal policy takes on an increasingly important role. In this situation it is critical that the Government deploy its strong balance sheet to support growth and jobs.

Throughout the global financial crisis, the Government has stayed ahead of the curve, taking decisive and early action where necessary to support jobs and growth. The \$42 billion Nation Building and Jobs Plan, discussed in detail in Part 2, continues this trend. The Plan represents an investment of \$28.8 billion in schools, housing, energy efficiency, roads and regional infrastructure and support to businesses. Immediate stimulus will also be provided by the payment of bonuses through the tax and transfer system.

The Government will continue to monitor the economy closely, and is committed to taking further steps to support growth and jobs if required.

### **As the economy recovers: returning the budget to surplus**

The Government remains committed to the medium-term fiscal strategy, and in particular to keeping the budget in surplus, on average, over the economic cycle.

The investments made through this package will strengthen our future economy, and through it the sustainability of government finances. It is also important to note that the fiscal stimulus package has been carefully developed to ensure that it does not lock in increases in baseline government spending.

As soon as economic growth returns to above trend levels, the Government will take action to return the budget to surplus as quickly as economic conditions permit.

### **Allowing tax receipts to recover naturally ...**

As economic growth returns to above trend levels, there will be a natural recovery in the level of tax receipts without any policy changes. The Government will 'bank' any improvement in tax receipts associated with economic recovery, allowing this to flow through to improve the budget position.

### **... and reprioritising spending to fast-track the return to surplus**

As economic growth returns to trend levels, the Government will review spending programs to reduce the levels of real growth in government spending to 2 per cent per annum.

All areas of government spending will be examined with a view to finding efficiencies and opportunities to better target programs while continuing to honour the

Government's commitment to provide 3 per cent real growth per year on average in Defence's underlying funding base to 2017-18. The Government will also continue its efforts to deliver greater efficiencies across the public sector.

## FISCAL OUTLOOK

The Australian Government's underlying cash balance for 2008-09 has been revised to a deficit of \$22.5 billion. In accrual terms, the fiscal balance has been revised down to a deficit of \$22.4 billion for 2008-09.

**Table 4.1: Australian Government general government sector budget aggregates<sup>(a)</sup>**

	Estimates			
	2008-09		2009-10	
	MYEFO	UEFO	MYEFO	UEFO
<b>Underlying cash balance (\$b)(b)</b>	<b>5.4</b>	<b>-22.5</b>	<b>3.6</b>	<b>-35.5</b>
Per cent of GDP	0.4	-1.9	0.3	-2.9
<b>Fiscal balance (\$b)</b>	<b>5.8</b>	<b>-22.4</b>	<b>7.1</b>	<b>-33.3</b>
Per cent of GDP	0.5	-1.9	0.6	-2.8
	Projections			
	2010-11		2011-12	
	MYEFO	UEFO	MYEFO	UEFO
<b>Underlying cash balance (\$b)(b)</b>	<b>2.6</b>	<b>-34.3</b>	<b>6.7</b>	<b>-25.7</b>
Per cent of GDP	0.2	-2.7	0.5	-1.9
<b>Fiscal balance (\$b)</b>	<b>6.7</b>	<b>-31.5</b>	<b>10.1</b>	<b>-23.9</b>
Per cent of GDP	0.5	-2.5	0.7	-1.8

(a) Budget estimates published in the February 2009 *Updated Economic and Fiscal Outlook* are based on same external reporting standards used in the 2008-09 Budget and MYEFO. Net financial worth will be updated in the 2009-10 Budget.

(b) Excludes expected Future Fund earnings.

Given the sharp deterioration in economic conditions and the imperative to develop the stimulus plan to support the economy, the Government has released the *Updated Economic and Fiscal Outlook* to set out its revised fiscal strategy and an update of its economic forecasts and key fiscal aggregates.

The fiscal strategy statement in the *Updated Economic and Fiscal Outlook* is consistent with the *Charter of Budget Honesty Act 1998* (the Charter). The Charter also provides a framework for the conduct of government fiscal policy that is based on public scrutiny of fiscal policy and performance. Consistent with this objective, the *Updated Economic and Fiscal Outlook* explains the impact of the global recession on the economic outlook and key fiscal measures. The Government will release a complete economic and fiscal outlook, including full financial statements and a statement of risks in the 2009-10 Budget.

## VARIATIONS IN THE UNDERLYING CASH BALANCE

The 2008-09 underlying cash balance is lower than estimated at MYEFO by \$27.9 billion. Receipts (excluding Future Fund earnings) have been revised down by \$10.3 billion as the continuing weakness in the international economic outlook, and its consequent impact on the Australian economic outlook, reduces the income of businesses and individuals and lowers consumption. Downward revisions to taxes have been broad based, with almost all tax receipts now expected to be lower.

At the same time, payments have increased by \$17.5 billion as the Government takes action to support economic growth and jobs, as well as allowing the automatic stabilisers to work in countering the economic downturn.

Table 4.2 provides a reconciliation of the variations in the underlying cash balance estimates.

**Table 4.2: Reconciliation of Australian Government general government sector underlying cash balance estimates**

	Estimates		Projections	
	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>2008-09 MYEFO underlying cash balance(a)</b>	<b>5,365</b>	<b>3,595</b>	<b>2,640</b>	<b>6,689</b>
<b>Changes from 2008-09 MYEFO to UEFO</b>				
Effect of policy decisions(b)	-18,037	-18,365	-11,655	-5,435
Effect of parameter and other variations	-9,816	-20,753	-25,314	-26,937
<b>Total variations</b>	<b>-27,853</b>	<b>-39,118</b>	<b>-36,970</b>	<b>-32,372</b>
<b>2008-09 UEFO underlying cash balance(a)</b>	<b>-22,487</b>	<b>-35,524</b>	<b>-34,330</b>	<b>-25,683</b>

(a) Excludes expected Future Fund earnings.

(b) Excludes the public debt net interest effect of policy decisions.

Policy decisions taken since the 2008-09 MYEFO have reduced the underlying cash balance by \$18.0 billion in 2008-09 and \$18.4 billion in 2009-10.

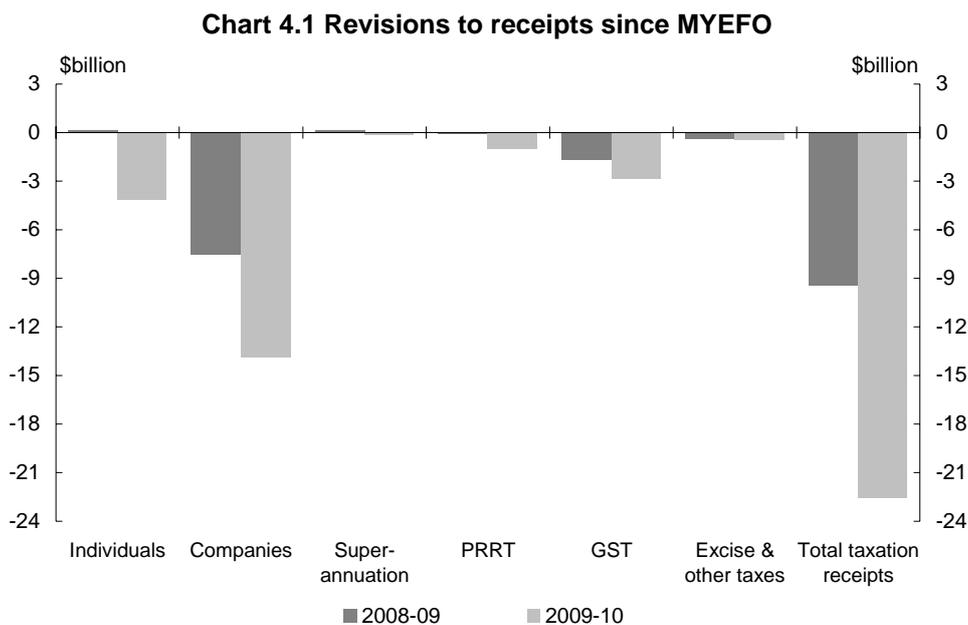
Over the same period, total parameter and other variations have reduced the underlying cash balance by \$9.8 billion in 2008-09 and \$20.8 billion in 2009-10.

Since the MYEFO, parameter and other variations have led to taxation receipt estimates being revised down by \$9.5 billion in 2008-09, \$22.6 billion in 2009-10, \$21.8 billion in 2010-11 and \$21.9 billion in 2011-12 (and a total of around \$75 billion over the full forward estimates period). This significant reduction in receipts reflects:

- falls in profits of companies, unincorporated businesses and petroleum resource projects from a range of factors including weaker demand, forecast further declines in commodity prices (reflecting the weaker outlook for world growth), weaker asset prices and rising bad debts;

- weaker wage and employment growth and weaker outlook for income from interest and dividends from 2009-10 affecting income tax on individuals;
- weaker consumption growth affecting taxes on consumption (GST, luxury car tax, customs and excise duties); and
- further falls in equity prices, in Australia and internationally, and lower than anticipated house prices affecting capital gains tax, which is a component of income taxes on individuals, companies and superannuation funds.

As a consequence, the largest revisions have been made to company tax, which has been reduced by \$7.5 billion in 2008-09 and almost \$14 billion in 2009-10 (and nearing a total of \$50 billion over the forward estimates). Other significant revisions have been made to taxes on individuals' income (down \$4 billion in 2009-10), GST (down \$1.8 billion in 2008-09 and \$2.8 billion in 2009-10) and petroleum resource rent tax (PRRT) (down \$1 billion in 2009-10). Chart 4.1 shows the revisions to receipts since MYEFO.



Tax receipts have also been revised down slightly in 2008-09 and 2009-10 to reflect expected increases in tax debt (that is, taxes that are overdue), primarily relating to individuals, unincorporated businesses and payers of GST.

The underlying cash balance is largely unchanged in 2008-09, but reduced in 2009-10, as a result of parameter and other revisions to total payments. The primary cause of this variation has been the slowing of the Australian economy. Most notably the need to provide additional support to those most adversely affected by the global crisis has

increased expected Newstart and Age Pension payments. In addition, payments under the Pharmaceutical Benefits Scheme and Medicare Benefits Schedule have been revised upwards in 2008-09 and 2009-10.

## VARIATIONS IN THE FISCAL BALANCE

The 2008-09 fiscal balance is lower than estimated at MYEFO by \$28.2 billion, largely reflecting a decrease of \$9.3 billion in revenue and an increase in expenses and net capital investment of \$18.9 billion.

Table 4.3 provides a reconciliation of the fiscal balance estimates.

**Table 4.3: Reconciliation of Australian Government general government sector fiscal balance estimates<sup>(a)</sup>**

	Estimates		Projections	
	2008-09	2009-10	2010-11	2011-12
	\$m	\$m	\$m	\$m
<b>2008-09 MYEFO fiscal balance</b>	<b>5,842</b>	<b>7,123</b>	<b>6,713</b>	<b>10,085</b>
Per cent of GDP	0.5	0.6	0.5	0.7
<b>Changes between 2008-09 MYEFO and UEFO</b>				
Effect of policy decisions(b)				
Revenue	-449	-1,102	5,611	5,437
Expenses and net capital investment	19,194	18,645	17,070	10,774
Total policy decisions impact on fiscal balance	-19,643	-19,747	-11,459	-5,338
Effect of parameter and other variations				
Revenue	-8,840	-19,241	-23,172	-24,354
Expenses and net capital investment	-288	1,434	3,538	4,312
Total parameter and other variations impact on fiscal balance	-8,552	-20,675	-26,710	-28,666
<b>2008-09 UEFO fiscal balance</b>	<b>-22,353</b>	<b>-33,299</b>	<b>-31,456</b>	<b>-23,920</b>
Per cent of GDP	-1.9	-2.8	-2.5	-1.8

(a) 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.

(b) Excludes the public debt net interest effect of policy decisions.

## Policy decisions

Policy decisions taken since MYEFO have reduced the fiscal balance by \$19.6 billion in 2008-09. Major policy decisions affecting the fiscal balance over the forward estimates period include:

- the Nation Building and Jobs Plan which will reduce the fiscal balance by \$41.6 billion over four years;
- the COAG reform agenda which will provide additional funding to the States and Territories to support key service areas including healthcare, education, vocational education and training, affordable housing and disability services, reducing the fiscal balance by \$15.2 billion over five years; and

- the December Nation Building Package, reducing the fiscal balance by \$2 billion over four years.

Appendix A provides a full list of policy decisions taken since the 2008-09 MYEFO.

## **Parameter and other variations**

### **Revenue**

Parameter and other revisions to total revenue have reduced the fiscal balance by \$8.8 billion in 2008-09 and \$19.2 billion in 2009-10.

Since MYEFO, there have been very large downward parameter and other variations to estimated tax revenues in all years as the economic forecasts have been revised down substantially following continued global financial turmoil, a weaker global economic outlook and sharp falls in commodity prices. This has resulted in reductions in estimated tax revenue of \$8.4 billion in 2008-09 and \$21.2 billion in 2009-10 (with slightly larger declines in the projection years).

Company tax estimates have been reduced sharply since MYEFO owing to much lower expectations for company profits and recent soft tax collections pointing to current taxable profits slowing quickly. Forecast corporate gross operating surplus has been revised down significantly, particularly as forecasts for further declines in commodity prices have reduced profit expectations for miners, and the financial sector continues to deal with the impact of the global financial crisis. In addition, company profits are being eroded by falls in capital gains, increases in other market-linked investment losses (especially in the finance sector), higher levels of bad debts and weaker consumption. Company tax is forecast to be \$7.5 billion lower than the MYEFO estimate in 2008-09 and \$14 billion lower in 2009-10 (and similar amounts in the projection years).

Lower oil prices and production are expected to reduce profits from projects subject to PRRT. PRRT revenues are expected to be slightly lower than the MYEFO estimate in 2008-09 but fall by around \$1 billion in 2009-10.

Individuals' income tax estimates in 2008-09 are broadly in line with the MYEFO forecast but have been revised down by \$3.5 billion in 2009-10. From 2009-10, lower forecasts for growth in employment and wages are expected to reduce tax on wages and salaries by almost \$2 billion per year. In addition, a weaker outlook for profits earned by unincorporated businesses, property income (mainly interest and dividends) and capital gains have reduced forecast individuals' income tax by almost \$2 billion in 2009-10 and greater amounts in the projection years.

Since MYEFO, there have been significant falls in equity prices, in Australia and internationally, following continued global financial turmoil and a weaker global economic outlook. In late January, the Standard & Poor's ASX200 index traded below

3,400 points compared with just below 4,000 points in late October. In addition, house prices have fallen in recent quarters.

GST estimates have been revised down by around \$1 billion in 2008-09 and around \$2 billion in 2009-10 following downward revisions to forecasts of consumption and new dwelling investment.

Reduced forecasts of consumption have also led to reductions of more than \$250 million per year in aggregate estimates of all other indirect taxes (excise and customs duties, luxury car tax, and wine equalisation tax). In particular, reduced demand for vehicles has led to significant reductions in estimates for customs duty and luxury car tax.

Partially offsetting the effect of the parameter changes on revenue in 2009-10 is the RBA dividend which is expected to increase largely as a result of gains realised from its operations in the foreign exchange market. Projections of the dividend beyond 2009-10 have been revised down considerably, in part reflecting the sharp decline in market and policy interest rates around the world in recent months.

#### **Expense and net capital investment**

Parameter and other revisions to expenses and net capital investment are expected to improve the fiscal balance by \$288 million in 2008-09 and reduce the fiscal balance by \$1.4 billion in 2009-10. This variation in estimated expenses primarily reflects:

- a higher than previously anticipated increase in the number of people claiming Newstart, increasing forecast expenses by \$206 million in 2008-09 and \$1,095 million in 2009-10;
- an upwards revision in both the number of age pensioners and the average payment amount resulting in forecast expenses rising by \$76 million in 2008-09 and \$451 million in 2009-10;
- an expected increase in Family Tax Benefit expenses of \$218 million in 2009-10 as a result of a higher number of claimants;
- higher than expected use of child care resulting in Child Care Tax Rebate expenses rising by \$150 million in 2008-09 and \$100 million in 2009-10;
- higher than forecast Disability Support Pension expenses of \$101 million in 2008-09 and \$166 million in 2009-10 as a result of higher than expected beneficiary numbers;
- an upwards revision to Youth Allowance expenses of \$52 million in 2008-09 and \$163 million in 2009-10 reflecting higher than expected average payments and an increase in the number of claimants;

- an anticipated increase in the cost of the Pharmaceutical Benefits Scheme and Medicare Benefits Schedule expenses of \$657 million in 2008-09 and of \$510 million in 2009-10. This increase is largely owing to stronger than previously expected demand for pharmaceuticals, the Parliament's decision to continue the Chronic Disease Dental Scheme and higher than anticipated demand for medical services;
- an upwards revision to estimated fuel tax credit expenses of \$359 million in 2008-09 and \$216 million in 2009-10 consistent with a higher than previously forecast number of recipients of the program;
- a revised estimate of the accruing public sector superannuation liability that is expected to reduce civilian superannuation expenses by \$277 million in 2008-09 and increase forecast expenses by \$76 million in 2009-10; and
- a downwards revision to estimated GST expenses to state and territory governments of \$1.7 billion in 2008-09 and \$2.8 billion in 2009-10 reflecting an anticipated fall in consumption spending.

## **VARIATIONS IN NET DEBT**

The Australian Government general government sector net debt for 2008-09 is estimated to be -\$16.2 billion (-1.3 per cent of GDP). Net debt is expected to increase across the forward estimates to 5.2 per cent of GDP in 2011-12.

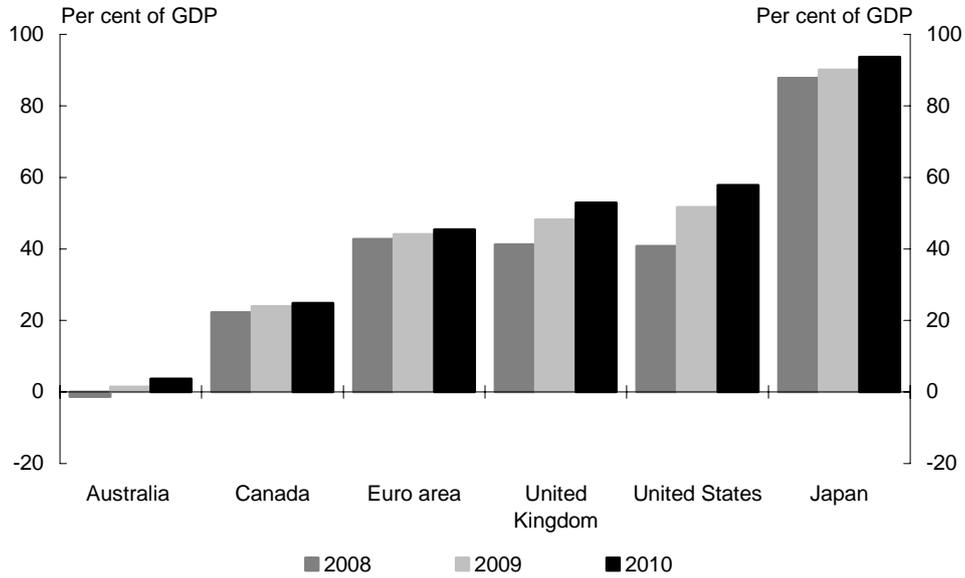
The Government will finance the projected budget deficits by issuing Commonwealth Government Securities (CGS). For this purpose the Government will seek to amend the *Commonwealth Inscribed Stock Act 1911*.

The overwhelming majority of the increase in net debt is due to the collapse in tax receipts resulting from the deteriorating global economic outlook and the unwinding of the commodities boom. A secondary impact is the increase in payments typically associated with a slowing economy. A third component is the Government's temporary stimulus measures put in place to support growth and jobs.

As the economy recovers and grows above trend, the Government will take action to return the budget to surplus. These surpluses will be drawn upon to retire debt as rapidly as economic circumstances permit.

Australian Government net debt remains very low by international standards. The average net debt for OECD countries in 2010 is estimated to be around 45 per cent of GDP. Chart 4.2 below illustrates the strength of the Australian Government's net debt position compared to other industrialised countries.

**Chart 4.2: Net debt selected countries 2008-2010**



Source: Treasury, HM Treasury, Congressional Budget Office, OECD Economic Outlook 84. Data refer to calendar years except Australian data are for the Australian Government general government sector and refer to financial years from 2008-09, and UK data refer to financial years from 2008-09.

Australian Government net debt is also low in comparison to the overall level of private sector indebtedness in the economy. Over the past 12 years private foreign net debt rose from \$123 billion (24 per cent of GDP) to \$616 billion (53 per cent of GDP). As has been shown over many years the level of Australian net foreign debt is sustainable and not a constraint on growth.

## APPENDIX A: POLICY DECISIONS TAKEN SINCE THE 2008-09 MYEFO

### Revenue Measures

**Table 1: Revenue measures since the 2008-09 MYEFO<sup>(a)</sup>**

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>CLIMATE CHANGE</b>				
<i>Department of Climate Change</i>				
Carbon Pollution Reduction Scheme – revenue from the sale of permits	-	-	11,500.0	12,000.0
<b>Portfolio total</b>	-	-	<b>11,500.0</b>	<b>12,000.0</b>
<b>DEFENCE</b>				
<i>Department of Defence</i>				
Australian Defence Force – general medical and dental care(b)	-	-	-	-
<b>Portfolio total</b>	-	-	-	-
<b>HUMAN SERVICES</b>				
<i>Department of Human Services</i>				
Transfer of the Commonwealth's shares in Health Services Australia to Medibank Private Limited(c)	-	18.0	-11.7	-11.7
<b>Portfolio total</b>	-	<b>18.0</b>	<b>-11.7</b>	<b>-11.7</b>
<b>TREASURY</b>				
<i>Australian Taxation Office</i>				
10% temporary investment allowance	-	-600.0	-450.0	-
Capital gains tax				
– exemption for tax offset or similar tax benefit	-	-	-	-
– optional roll-over of capital losses for complying superannuation funds	*	*	*	*
– relief for compulsory acquisitions of part of a main residence	*	*	*	*
– roll-over for transformation arrangements and provision for termination fees	*	*	*	*
Carbon Pollution Reduction Scheme				
– assistance for low and middle income households(b)	-	-	-1,200.0	-3,000.0
– fuel tax adjustments and fuel tax credits(d)	-	-	-2,850.0	-3,000.0
– GST treatment of permits	-	-	-	-
– income tax treatment of permits	-	-	-	-
Duty-free importation of certain prototype vehicles	-	-	-	-
Extending capital allowance roll-over relief for depreciating assets to where a fixed trust is converted to a company	*	*	*	*
GST				
– ensuring consistent treatment of ATM fees	-2.0	-7.0	-7.0	-7.0
– hospital treatment	-	-	-	-

Appendix A: Policy decisions taken since the 2008-09 MYEFO

**Table 1: Revenue measures since the 2008-09 MYEFO<sup>(a)</sup> (continued)**

	2008-09	2009-10	2010-11	2011-12
	\$m	\$m	\$m	\$m
<b>TREASURY (continued)</b>				
International tax – Australia – British Virgin Islands taxation agreement	-	-	..	..
Nation Building and Jobs Plan – Small Business and General Business Tax Break	-	-840.0	-1,350.0	-515.0
Permitting an administrative penalty to apply to the late lodgment of annual investment income reports	-	..	..	..
Philanthropy				
– additional prescribed private funds	-	-17.2	-1.1	-1.1
– protect charitable status of participants in National Rental Affordability Scheme	-7.0	-40.0	-53.0	-20.0
– updating the list of deductible gift recipients (DGRs)	-	-3.4	-3.8	-1.6
Reduction of the quarterly PAYG instalment for the December 2008 quarter for small business	-440.0	395.0	45.0	-
Resale royalty for visual artists – streamline income tax treatment	-	*	*	*
<b>Portfolio total</b>	<b>-449.0</b>	<b>-1,112.6</b>	<b>-5,869.9</b>	<b>-6,544.7</b>
<b>Decisions taken but not yet announced</b>	<b>-</b>	<b>-7.0</b>	<b>-7.0</b>	<b>-7.0</b>
<b>Total impact of revenue measures(e)</b>	<b>-449.0</b>	<b>-1,101.6</b>	<b>5,611.4</b>	<b>5,436.6</b>

\* The nature of the measure is such that a reliable estimate cannot be provided.

.. Not zero, but rounded to zero.

- Nil.

nfp not for publication.

(a) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain in revenue.

(b) These measures can also be found in the expense measures summary table.

(c) In transferring to Medibank Private Limited, Health Services Australia will provide \$27.0 million from retained earnings in 2009-10 but will cease to pay the Government dividends from 2009-10.

(d) Final costs will be published in the 2009-10 Budget.

(e) Measures may not add due to rounding.

## Expense Measures

**Table 2: Expense measures since the 2008-09 MYEFO<sup>(a)</sup>**

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>AGRICULTURE, FISHERIES AND FORESTRY</b>				
<i>Department of Agriculture, Fisheries and Forestry</i>				
Drought assistance				
– Exceptional Circumstances assistance for primary producers	11.0	-	-	-
– Exceptional Circumstances assistance for small businesses	1.0	-	-	-
Implementation of Operation Sunlight	0.3	-	-	-
Nation Building and Jobs Plan – Farmer's Hardship Bonus	20.4	-	-	-
<b>Portfolio total</b>	<b>32.7</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>ATTORNEY-GENERAL'S</b>				
<i>Attorney-General's Department</i>				
Implementation of Operation Sunlight	0.4	-	-	-
<i>Australian Customs Service</i>				
Combating People Smuggling- enhancing cooperation with BAKORKAMLA in Indonesia	-	0.3	0.2	0.2
Combating People Smuggling- enhancing maritime cooperation with Indonesia	-	0.3	0.1	0.1
<i>Australian Federal Police</i>				
Combating People Smuggling				
– developing regional law enforcement capacity	-	1.3	1.0	0.9
– enhancing Australia's approach to people smuggling	-	0.7	0.6	0.7
Surge Capacity Phase 1 – reprioritisation of funding	-	-2.6	-2.6	-2.6
<b>Portfolio total</b>	<b>0.4</b>	<b>..</b>	<b>-0.6</b>	<b>-0.7</b>
<b>BROADBAND, COMMUNICATIONS AND THE DIGITAL ECONOMY</b>				
<i>Australian Communications and Media Authority</i>				
Digital Dividend – consultation and preliminary technical planning	1.4	-	-	-
Digital Television Switchover – Mildura/Sunraysia pilot	0.9	1.0	-	-
<i>Department of Broadband, Communications and the Digital Economy</i>				
Digital Dividend – consultation and preliminary technical planning	0.6	-	-	-
Digital Television Switchover – Mildura/Sunraysia pilot	1.9	7.8	1.5	-
Implementation of Operation Sunlight	0.2	-	-	-
National Broadband Network – establishment and implementation – additional funding(d)	-	-	-	-
<b>Portfolio total</b>	<b>5.0</b>	<b>8.8</b>	<b>1.5</b>	<b>-</b>

**Table 2: Expense measures since the 2008-09 MYEFO<sup>(a)</sup> (continued)**

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>CLIMATE CHANGE</b>				
<i>Department of Climate Change</i>				
Carbon Pollution Reduction Scheme				
– assistance to emissions intensive trade exposed industries(b)	-	-	2,900.0	3,100.0
– assistance to strongly affected industries(b)	-	-	700.0	700.0
– Climate Change Action Fund(b)	-	300.0	700.0	700.0
– detailed design and implementation(b)	*	*	*	*
– establishing the regulatory environment(b)	*	*	*	*
– transitional assistance to firms participating in the Greenhouse Gas Reduction Scheme(b)	*	*	*	*
Implementation of Operation Sunlight	0.1	-	-	-
<b>Portfolio total</b>	<b>0.1</b>	<b>300.0</b>	<b>4,300.0</b>	<b>4,500.0</b>
<b>CROSS PORTFOLIO</b>				
<i>Various Agencies</i>				
Community Development Employment Projects Program (CDEP) and the Indigenous Employment Program (IEP) Reform(c)	..	-2.9	68.9	73.8
Council Of Australian Governments – additional funding	3,501.3	1,775.9	2,227.9	3,572.9
Information and communication technology				
– Gershon Review – implementation	14.5	8.5	3.2	2.4
– Gershon Review – reinvesting 50% of review savings	-	63.9	193.6	195.7
– Gershon Review – savings	-	-127.9	-387.2	-391.4
<b>Portfolio total</b>	<b>3,515.9</b>	<b>1,717.5</b>	<b>2,106.4</b>	<b>3,453.4</b>
<b>DEFENCE</b>				
<i>Defence Housing Australia</i>				
Nation Building and Jobs Plan – Defence Housing – funding for additional dwellings	-	201.5	50.1	-
<i>Department of Defence</i>				
Australian Defence Force – general medical and dental care(d)	-	-	-	-
Implementation of Operation Sunlight	0.2	-	-	-
Search for the Centaur	-	-	-	-
<b>Portfolio total</b>	<b>0.2</b>	<b>201.5</b>	<b>50.1</b>	<b>-</b>
<b>EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS</b>				
<i>Department of Education, Employment and Workplace Relations</i>				
ABC Learning				
– Additional financial assistance to support the operation of 241 childcare centres	34.0	-	-	-
– Initial financial assistance to support the operation of up to 1040 childcare centres	24.0	-	-	-
Australian Broadcasting Corporation staff who developed breast cancer while working at Toowong Queensland – ex gratia payment	*	*	*	*

**Table 2: Expense measures since the 2008-09 MYEFO<sup>(a)</sup> (continued)**

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS (continued)</b>				
Drought assistance				
– Exceptional Circumstances assistance for primary producers	0.2	-	-	-
– Exceptional Circumstances assistance for small businesses	..	-	-	-
Higher Education Loan Program – services and amenities(d)	-	-	-	-
Implementation of Operation Sunlight	0.2	-	-	-
Learning and Teaching Performance Fund – offset	-1.3	-	-	-
Nation Building				
– Teaching and Learning Capital Fund – Vocational Education and Training	-	500.0	-	-
– Education Investment Fund – Offsets	-38.4	-688.1	-185.7	-144.2
– Higher Education projects	39.4	188.1	185.7	144.2
– Teaching and Learning Capital Fund – Higher Education	-	500.0	-	-
Nation Building and Jobs Plan				
– Building the Education Revolution	987.2	8,513.6	5,219.0	-
– Trade Training Centres in Schools – accelerated activity	-	110.0	-110.0	-
– Training and Learning Bonus and Education Entry Payment Supplement	353.8	98.3	-	-
Partner Service Pension – further arrangements for married partners of veterans who are separated but not divorced	-0.6	-0.1	-0.1	-0.2
<b>Portfolio total</b>	<b>1,398.6</b>	<b>9,221.8</b>	<b>5,108.9</b>	<b>-0.2</b>
<b>ENVIRONMENT, WATER, HERITAGE AND THE ARTS</b>				
<i>Department of the Environment, Water, Heritage and the Arts</i>				
Implementation of Operation Sunlight	0.4	-	-	-
International whaling – conservation and diplomacy initiatives	5.2	3.6	3.6	4.9
Nation Building and Jobs Plan – Energy Efficient Homes	39.0	1,539.5	1,544.0	736.0
<b>Portfolio total</b>	<b>44.6</b>	<b>1,543.1</b>	<b>1,547.6</b>	<b>740.9</b>
<b>FAMILIES, HOUSING, COMMUNITY SERVICES AND INDIGENOUS AFFAIRS</b>				
<i>Department of Families, Housing, Community Services and Indigenous Affairs</i>				
Carbon Pollution Reduction Scheme – assistance for low and middle income households(b)	-	-	2,700.0	3,000.0
Closing the Gap				
– Northern Territory – income management	34.6	-	-	-
– Northern Territory – Remote Policing	4.0	-	-	-
– Northern Territory – removal of asbestos containing material in Indigenous communities	1.3	15.7	-	-

Appendix A: Policy decisions taken since the 2008-09 MYEFO

**Table 2: Expense measures since the 2008-09 MYEFO<sup>(a)</sup> (continued)**

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>FAMILIES, HOUSING, COMMUNITY SERVICES AND INDIGENOUS AFFAIRS (continued)</b>				
Economic Security Strategy – public information campaign	11.6	-	-	-
Emergency Relief Program – additional funding	10.9	34.4	35.3	-
Implementation of Operation Sunlight	0.3	-	-	-
Mumbai Attacks – assistance for victims	0.1	-	-	-
Nation Building and Jobs Plan				
– Back to School Bonus – One-off Lump Sum Payment of \$950 per FTB-A Eligible Child	2,618.5	-	-	-
– Single Income Family Bonus – One-off Lump Sum Payment of \$950 per FTB-B Family	1,420.0	97.0	-	-
– Training and Learning Bonus and Education Entry Payment Supplement	56.9	-	-	-
Partner Service Pension – further arrangements for married partners of veterans who are separated but not divorced	-0.9	-0.2	-0.2	-0.2
<b>Portfolio total</b>	<b>4,157.2</b>	<b>146.9</b>	<b>2,735.1</b>	<b>2,999.8</b>
<b>FINANCE AND DEREGULATION</b>				
<i>Department of Finance and Deregulation</i>				
Implementation of Operation Sunlight	1.1	3.2	2.9	2.3
Strengthening capacity of Central Agencies to support the Government's Strategic Policy Agenda	-	6.8	6.8	6.9
<b>Portfolio total</b>	<b>1.1</b>	<b>10.0</b>	<b>9.7</b>	<b>9.2</b>
<b>FOREIGN AFFAIRS AND TRADE</b>				
<i>AusAID</i>				
Australia-Indonesia Facility for Disaster Reduction(d)	-	-	-	-
<i>Australian Secret Intelligence Service</i>				
Combating People Smuggling – enhanced intelligence capability(e)	0.1	5.6	5.1	5.1
<i>Department of Foreign Affairs and Trade</i>				
Implementation of Operation Sunlight	0.2	-	-	-
International whaling – conservation and diplomacy initiatives	0.2	0.3	0.3	0.3
Pakistan				
– upgrade of security at the Australian High Commission(d)	-	-	-	-
– upgrade of security at the Australian High Commission – Phase II(e)	1.2	2.4	2.4	2.4
<b>Portfolio total</b>	<b>1.8</b>	<b>8.3</b>	<b>7.8</b>	<b>7.8</b>
<b>HEALTH AND AGEING</b>				
<i>Australian Sports Commission</i>				
Elite Sport – additional funding extension(d)	-	-	-	-
<i>Department of Health and Ageing</i>				
Australian Red Cross Society – additional funding	-	-	-	-

Appendix A: Policy decisions taken since the 2008-09 MYEFO

**Table 2: Expense measures since the 2008-09 MYEFO<sup>(a)</sup> (continued)**

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>HEALTH AND AGEING (continued)</b>				
Australia's Bid for the 2018 FIFA World Cup – Government support	7.9	17.7	20.0	-
Bernie Banton Centre	-	-	-	-
Drought assistance				
– Exceptional Circumstances assistance for primary producers	..	-	-	-
– Exceptional Circumstances assistance for small businesses	..	-	-	-
Health Workforce – additional general practice training places	-	-	-	-
Implementation of Operation Sunlight	0.3	-	-	-
Medicare Benefits Schedule – new and revised listings	-0.1	-0.1	-0.1	-0.1
Pharmaceutical Benefits Scheme – listing of Noxafil® (posaconazole)	4.9	10.2	10.8	11.3
Radiology Services – enhancing quality	11.4	10.0	-	-
Teen Dental Plan – extension	1.3	1.5	1.8	1.9
<b>Portfolio total</b>	<b>25.8</b>	<b>39.3</b>	<b>32.5</b>	<b>13.1</b>
<b>HUMAN SERVICES</b>				
<i>Centrelink</i>				
Child Support – amendment of the <i>Family Law Act 1975</i>	1.1	0.3	0.2	0.2
Digital Television Switchover – Mildura/Sunraysia pilot	0.1	0.5	-	-
Drought assistance				
– Exceptional Circumstances assistance for primary producers	0.1	-	-	-
– Exceptional Circumstances assistance for small businesses	..	-	-	-
Teen Dental Plan – extension	0.6	..	..	..
<i>Department of Human Services</i>				
Child Support – amendment of the <i>Family Law Act 1975</i>	1.1	0.3	-	-
Closing the Gap – Northern Territory – income management	0.3	-	-	-
Commonwealth Spatial Data Integration	0.7	1.5	-	-
Implementation of Operation Sunlight	0.2	-	-	-
Job Capacity Assessments				
– additional funding	39.0	-	-	-
– increased fees	-	2.9	2.9	2.8
Payment Delivery – enhanced arrangements	7.0	0.8	-	-
<i>Medicare Australia</i>				
Additional 2008-09 Funding for the LPG Vehicle Scheme	1.1	-	-	-
Health Workforce – additional general practice training places	-	-	-	-
Pharmaceutical Benefits Scheme – listing of Noxafil® (posaconazole)	..	..	..	..
Teen Dental Plan – extension	0.3	0.1	0.1	0.1
<b>Portfolio total</b>	<b>51.5</b>	<b>6.4</b>	<b>3.2</b>	<b>3.2</b>

**Table 2: Expense measures since the 2008-09 MYEFO<sup>(a)</sup> (continued)**

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>IMMIGRATION AND CITIZENSHIP</b>				
<i>Department of Immigration and Citizenship</i>				
Combating People Smuggling				
– border intelligence capacity and management	1.0	1.6	1.6	1.6
– immigration and border agency training	-	0.9	0.9	0.8
– Indonesian border management capacity building partnership	-	4.0	3.5	-
– protection management	-	1.6	1.7	1.7
– regional capacity building assistance through a reinvigorated Bali Process	-	0.7	0.7	0.7
– regional mechanisms to counter people smuggling	1.9	5.9	0.1	5.0
Implementation of Operation Sunlight	0.2	-	-	-
<b>Portfolio total</b>	<b>3.1</b>	<b>14.7</b>	<b>8.5</b>	<b>9.8</b>
<b>INFRASTRUCTURE, TRANSPORT, REGIONAL DEVELOPMENT AND LOCAL GOVERNMENT</b>				
<i>Department of Infrastructure, Transport, Regional Development and Local Government</i>				
Establishment of a local government centre of excellence	8.2	-	-	-
Implementation of Operation Sunlight	0.2	-	-	-
Nation Building and Jobs Plan				
– boom gates for rail crossings	50.0	100.0	-	-
– Regional and Local Community Infrastructure Program – Strategic Projects – additional funding	250.0	250.0	-	-
– Repairing regional links on the national highway network	150.0	-	-	-
– Road safety – Black Spot Program – additional funding	30.0	60.0	-	-
Nation building package				
– bring forward of investment to build better roads	328.4	382.1	-203.7	-329.5
– East Kimberley development package	16.4	178.8	-	-
– road safety black spot program	60.0	-	-	-
Regional and Local Community Infrastructure Program	250.9	0.4	-	-
Regional and Local Community Infrastructure Program – strategic projects	52.2	1.1	-	-
<b>Portfolio total</b>	<b>1,196.3</b>	<b>972.5</b>	<b>-203.7</b>	<b>-329.5</b>
<b>INNOVATION, INDUSTRY, SCIENCE AND RESEARCH</b>				
<i>Department of Innovation, Industry, Science and Research</i>				
A New Car Plan for a Greener Future – Liquefied Petroleum Gas (LPG) Vehicle Scheme – enhancement(d)	-	-	-	-
Additional 2008-09 Funding for the LPG Vehicle Scheme	95.9	-	-	-
Implementation of Operation Sunlight	0.2	-	-	-
<b>Portfolio total</b>	<b>96.1</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Table 2: Expense measures since the 2008-09 MYEFO<sup>(a)</sup> (continued)**

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>PARLIAMENTARY DEPARTMENTS</b>				
<i>Department of Parliamentary Services</i>				
Implementation of Operation Sunlight	0.1	-	-	-
<i>Department of the House of Representatives</i>				
Implementation of Operation Sunlight	..	-	-	-
<i>Department of the Senate</i>				
Implementation of Operation Sunlight	..	-	-	-
<b>Portfolio total</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>PRIME MINISTER AND CABINET</b>				
<i>Australian National Audit Office</i>				
Implementation of Operation Sunlight	-	0.7	0.7	0.8
<i>Australian Public Service Commission</i>				
Ethics Advisory Service	0.5	0.3	0.3	0.3
Recruitment advertising policy and website	0.1	0.4	0.3	-
<i>Department of the Prime Minister and Cabinet</i>				
Implementation of Operation Sunlight	0.2	-	-	-
Pacific Islands Forum	3.4	2.6	-	-
Strengthening capacity of Central Agencies to support the Government's Strategic Policy Agenda	3.4	6.4	6.5	6.5
<b>Portfolio total</b>	<b>7.6</b>	<b>10.4</b>	<b>7.8</b>	<b>7.5</b>
<b>RESOURCES, ENERGY AND TOURISM</b>				
<i>Department of Resources, Energy and Tourism</i>				
Ethanol Production Grants – additional funding	37.0	86.1	109.4	-
Implementation of Operation Sunlight	0.2	-	-	-
<i>Geoscience Australia</i>				
Commonwealth Spatial Data Integration	0.4	0.8	-	-
<b>Portfolio total</b>	<b>37.6</b>	<b>86.9</b>	<b>109.4</b>	<b>-</b>
<b>TREASURY</b>				
<i>Australian Bureau of Statistics</i>				
Commonwealth Spatial Data Integration	0.1	0.3	-	-
<i>Australian Taxation Office</i>				
Carbon Pollution Reduction Scheme – fuel tax adjustments and fuel tax credits(b)(f)	-	-	-500.0	-1,000.0
Higher Education Loan Program – services and amenities	0.1	0.3	0.3	0.4
Nation Building and Jobs Plan – Tax Bonus for working Australians	8,150.0	1.0	-	-
<i>Department of the Treasury</i>				
GST – ensuring consistent treatment of ATM fees(f)	-2.0	-7.0	-7.0	-7.0
Implementation of Operation Sunlight	0.3	-	-	-
Nation Building and Jobs Plan – Investment in Social Housing – reducing homelessness and meeting priority needs	260.0	4,072.0	1,744.0	312.0
Philanthropy – protect charitable status of participants in National Rental Affordability Scheme(f)	-2.0	-10.0	-13.0	-5.0

Appendix A: Policy decisions taken since the 2008-09 MYEFO

**Table 2: Expense measures since the 2008-09 MYEFO<sup>(a)</sup> (continued)**

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>TREASURY (continued)</b>				
Strengthening capacity of Central Agencies to support the Government's Strategic Policy Agenda	1.8	8.2	8.3	8.3
<b>Portfolio total</b>	<b>8,408.4</b>	<b>4,064.8</b>	<b>1,232.6</b>	<b>-691.3</b>
<b>VETERANS' AFFAIRS</b>				
<i>Department of Veterans' Affairs</i>				
Commemorations				
– annual Anzac Day dawn service – Villers-Bretonneux	0.9	0.9	0.8	0.9
– Western Front Interpretive Trail – preliminary design work	-	-	-	-
Implementation of Operation Sunlight	0.2	-	-	-
Nation Building and Jobs Plan – Training and Learning Bonus and Education Entry Payment Supplement	2.2	-	-	-
Partner Service Pension – further arrangements for married partners of veterans who are separated but not divorced	4.6	1.1	1.3	1.5
Pharmaceutical Benefits Scheme – listing of Noxafil® (posaconazole)	0.4	0.7	0.7	0.7
<b>Portfolio total</b>	<b>8.3</b>	<b>2.7</b>	<b>2.9</b>	<b>3.1</b>
<b>Decisions taken but not yet announced</b>	<b>164.6</b>	<b>263.0</b>	<b>10.8</b>	<b>48.2</b>
<b>Total impact of expense measures(g)</b>	<b>19,157.0</b>	<b>18,618.5</b>	<b>17,070.5</b>	<b>10,774.3</b>

\* The nature of the measure is such that a reliable estimate cannot be provided.

.. Not zero, but rounded to zero.

- Nil.

nfp not for publication.

(a) A minus sign before an estimate indicates a reduction in expenses, no sign before an estimate indicates increased expenses.

(b) Final costs will be published in the 2009-10 Budget.

(c) The total cost of the package is \$153.5 million over five years from 2008-09. The measure above shows a cost of \$221.8 million over four years. A saving of \$68.3 million over five years from 2008-09 was included in the contingency reserve in the MYEFO statement.

(d) Provision for this funding has already been included in the forward estimates.

(e) These measures can also be found in the capital measures summary table.

(f) These measures can also be found in the revenue measures summary table.

(g) Measures may not add due to rounding.

## Capital Measures

**Table 3: Capital measures since the 2008-09 MYEFO<sup>(a)</sup>**

	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
<b>ATTORNEY-GENERAL'S</b>				
<i>Australian Federal Police</i>				
Combating People Smuggling				
– developing regional law enforcement capacity(b)	-	..	-	-
– enhancing Australia's approach to people smuggling(b)	-	..	-	-
<b>Portfolio total</b>	<b>-</b>	<b>..</b>	<b>-</b>	<b>-</b>
<b>BROADBAND, COMMUNICATIONS AND THE DIGITAL ECONOMY</b>				
<i>Australian Communications and Media Authority</i>				
Digital Dividend – consultation and preliminary technical planning(b)	0.6	-	-	-
<i>Department of Broadband, Communications and the Digital Economy</i>				
Special Broadcasting Service Corporation – loan for broadcasting rights and infrastructure works	-	*	*	*
<b>Portfolio total</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>ENVIRONMENT, WATER, HERITAGE AND THE ARTS</b>				
<i>Department of the Environment, Water, Heritage and the Arts</i>				
International whaling – conservation and diplomacy initiatives(b)	0.5	-	-	-
<b>Portfolio total</b>	<b>0.5</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FINANCE AND DEREGULATION</b>				
<i>Department of Finance and Deregulation</i>				
Implementation of Operation Sunlight(b)	-	0.3	-	-
<b>Portfolio total</b>	<b>-</b>	<b>0.3</b>	<b>-</b>	<b>-</b>
<b>FOREIGN AFFAIRS AND TRADE</b>				
<i>AusAID</i>				
Australia-Indonesia Facility for Disaster Reduction(b)	-	-	-	-
<i>Australian Secret Intelligence Service</i>				
Combating People Smuggling – enhanced intelligence capability	4.2	0.5	-	-
<i>Department of Foreign Affairs and Trade</i>				
Afghanistan – purchase of land for new chancery in Kabul	19.4	-	-	-
Pakistan				
– upgrade of security at the Australian High Commission(b)	-	-	-	-
– upgrade of security at the Australian High Commission – Phase II	7.8	10.1	-	-
<b>Portfolio total</b>	<b>31.5</b>	<b>10.6</b>	<b>-</b>	<b>-</b>

Appendix A: Policy decisions taken since the 2008-09 MYEFO

**Table 3: Capital measures since the 2008-09 MYEFO<sup>(a)</sup> (continued)**

	2008-09	2009-10	2010-11	2011-12
	\$m	\$m	\$m	\$m
<b>HUMAN SERVICES</b>				
<i>Medicare Australia</i>				
Teen Dental Plan – extension(b)	0.1	-	-	-
<b>Portfolio total</b>	<b>0.1</b>	-	-	-
<b>PRIME MINISTER AND CABINET</b>				
<i>Department of the Prime Minister and Cabinet</i>				
Australian Business Investment Partnership	-	-	-	-
<b>Portfolio total</b>	-	-	-	-
<b>RESOURCES, ENERGY AND TOURISM</b>				
<i>Geoscience Australia</i>				
Commonwealth Spatial Data Integration(b)	1.5	-	-	-
<b>Portfolio total</b>	<b>1.5</b>	-	-	-
<b>TREASURY</b>				
<i>Department of the Treasury</i>				
Car dealer financing: establishment of a special purpose vehicle	-	-	-	-
<b>Portfolio total</b>	-	-	-	-
<b>Decisions taken but not yet announced</b>	<b>3.0</b>	<b>15.1</b>	-	-
<b>Total capital measures(c)</b>	<b>37.1</b>	<b>26.1</b>	-	-

\* The nature of the measure is such that a reliable estimate cannot be provided.

.. Not zero, but rounded to zero.

- Nil.

nfp not for publication.

(a) A minus sign before an estimate indicates a reduction in capital, no sign before an estimate indicates increased capital.

(b) These measures can also be found in the expense measures summary table.

(c) Measures may not add due to rounding.

## APPENDIX B: NATION BUILDING AND JOBS PLAN

The Nation Building and Jobs Plan will deliver \$42 billion to support economic growth and jobs in Australia. As a result of the Plan, GDP growth will be around ½ per cent higher in 2008-09 and around ¾ to 1 per cent higher in 2009-10. The Plan will also support and sustain up to 90,000 jobs over the next two years.

The centrepiece of the Plan is \$28.8 billion in direct Government investment in schools, housing, energy efficiency, community infrastructure and roads and support to small businesses.

While some smaller capital projects can be commenced in 2008-09, given the lead time involved most larger projects will not commence until 2009-10.

In the interim, the Government will support economic growth by delivering \$12.7 billion in payments to low- and middle-income Australians. These payments will deliver an immediate stimulus to the economy to support growth and jobs now, and soften the immediate impact of the global recession on Australians.

### Revenue Measures

#### TREASURY

##### Nation Building and Jobs Plan — Small Business and General Business Tax Break

Revenue (\$m)	2008-09	2009-10	2010-11	2011-12
Australian Taxation Office	-	-840.0	-1,350.0	-515.0

The Government will provide an additional \$2.7 billion temporary tax break to small and other businesses to boost business investment.

Small businesses will be able to claim a 30 per cent deduction for eligible assets costing \$1,000 or more that they acquire from 13 December 2008 to 30 June 2009 and install by 30 June 2010.

This means that assets they start to hold under a contract entered into between 13 December 2008 and the end of June 2009, or start to construct between these times, and installed ready for use by the end of June 2010 will qualify.

For eligible assets costing \$1,000 or more they acquire from 1 July 2009 to 31 December 2009 they can claim a 10 per cent deduction if they are installed by 31 December 2010.

Thus assets they start to hold under a contract entered into between 1 July 2009 and the end of December 2009, or start to construct between these times, and installed ready for use before the end of December 2010 will qualify.

Assets that are eligible for the investment allowance will be new tangible depreciating assets and new expenditure on existing assets used in carrying on a business for which a deduction is available under the core provisions of Division 40 (Capital Allowances) in the *Income Tax Assessment Act 1997*.

Other businesses can receive the same deductions for eligible assets greater than \$10,000.

This trebles the investment allowance announced in December 2008.

## Expense Measures

### DEFENCE

#### **Nation Building and Jobs Plan — Defence Housing — funding for additional dwellings**

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Defence Housing Australia	-	201.5	50.1	-

The Government will provide \$251.6 million to Defence Housing Australia (DHA) to construct 802 dwellings for Australian Defence Force personnel in metropolitan and regional centres, with building commencing in April 2009 and continuing through to March 2011. The 802 dwellings are additional to DHA's existing plans for dwelling construction over this period. The construction of these additional dwellings will provide a stimulus to the economy and help DHA support Defence's operational requirements.

## EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS

### Nation Building and Jobs Plan — Building the Education Revolution

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of Education, Employment and Workplace Relations	987.2	8,513.6	5,219.0	-

The Government will provide \$14.7 billion over three years from 2008-09 to improve capital infrastructure for the benefit of schools and their local communities in Australia.

Funding of \$12.4 billion over three years from 2008-09 will be available for major infrastructure projects at all primary schools, including combined schools and special schools, that will not only provide lasting benefits to schools, but also to the community as a whole. It will enable the construction of facilities in the following priority order: 21<sup>st</sup> century libraries, new multipurpose halls (or in the case of very small schools, sheltered outdoor learning areas), and the construction of classrooms, replacement of demountables or refurbishment of existing facilities.

Eligible schools will be able to apply for funding up to a maximum amount determined on the basis of their primary school student population. Funding will be: \$3.0 million for schools with more than 400 students; \$2.5 million for schools with 301 to 400 students; \$2.0 million for schools with 151 to 300 students; \$850,000 for schools with 51 to 150 students; and \$250,000 for schools with up to 50 students.

Funding of \$1.0 billion in 2009-10 will also be available on a rapid, competitive basis for the construction of science and language laboratories in secondary schools with construction to be completed before 30 June 2010.

A condition of funding for major infrastructure projects built under the program will be to provide free community access, including to assist in the provision of outside schools hours care, at minimal charge where recurrent costs may be incurred from after hours use.

Funding of \$1.3 billion over two years will be available for minor infrastructure and maintenance projects for all schools, including secondary schools. It will enable the construction of small scale infrastructure (including infrastructure supporting students with disabilities or special needs), refurbishment of existing infrastructure, or one-off maintenance projects.

Schools will be able to apply for funding up to a maximum amount determined on the basis of their student population. Funding will be capped at: \$200,000 for schools with more than 400 students; \$150,000 for schools with 301 to 400 students; \$125,000 for

schools with 151 to 300 students; \$75,000 for schools with 51-150 students; and \$50,000 for schools with up to 50 students.

To ensure that the benefits of this substantial investment in community infrastructure are enjoyed by students, parents and communities as quickly as possible, the Government will close the last of the application rounds in September 2009. This will ensure that construction can commence for this final round by December 2009.

The funding provided also includes assistance over three years for State and Territory governments and the non-government Block Grant Authorities to administer the program. This assistance is equivalent to 1.5 per cent of the funding available to each sector.

**Nation Building and Jobs Plan — Trade Training Centres in Schools — accelerated activity**

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of Education, Employment and Workplace Relations	-	110.0	-110.0	-

The Government will bring forward \$110 million of funding from 2010-11 to 2009-10 for the Trade Training Centres in Schools Program.

The Trade Training Centres in Schools Program is part of the Government’s Building the Education Revolution package. The Program will provide \$2.5 billion over 10 years in a National Partnership with the States and Territories for facilities to enhance vocational education opportunities for students in Years 9 to 12. Trade Training Centres will help increase the number of students achieving Year 12 or an equivalent qualification. Schools can seek between \$500,000 and \$1.5 million in total over the life of the program, to build or upgrade trade workshops, computer laboratories and other facilities.

Funding for the life of the program was provided by the Commonwealth Government in the 2008-09 Budget.

**Nation Building and Jobs Plan — Training and Learning Bonus and Education Entry Payment Supplement**

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of Education, Employment and Workplace Relations	353.8	98.3	-	-
Department of Families, Housing, Community Services and Indigenous Affairs	56.9	-	-	-
Department of Veterans' Affairs	2.2	-	-	-
Total	412.9	98.3	-	-

The Government will provide \$511.2 million over two years to assist eligible recipients with the costs of education and training through the Training and Learning Bonus. This measure will provide a stimulus to the economy by assisting disadvantaged families with the costs of education and training.

The Training and Learning Bonus will provide a lump sum payment of \$950 to assist with costs in the 2009 academic year to those who, on 3 February 2009, are recipients of:

- Youth Allowance (student and apprentices);
- Austudy;
- ABSTUDY;
- payments under the Veterans' Children Education Scheme;
- payments under the Military Rehabilitation and Compensation Act Education and Training Scheme; or
- families entitled to Family Tax Benefit Part A (FTB-A) for each eligible dependent student aged 21 to 24 years on the date of announcement. Dependent 19 or 20 year old children who attract FTB-A and are full-time secondary or tertiary students in approved courses will be eligible for a \$950 payment upon application to Centrelink.

This one-off bonus will also be available to recipients of Sickness Allowance and Special Benefit (under Age Pensions age).

In addition, greater incentives for other eligible social security recipients to take up further education and training will be provided through a temporary supplement to the Education Entry Payment. This temporary supplement will be \$950 in addition to the existing payment of \$208 for the period 1 January 2009 to 30 June 2010. The Education Entry Payment, and the supplement, will be extended for this period to

Youth Allowance (other) recipients and eligibility will be relaxed to a one month qualifying period.

The Training and Learning Bonus and the Education Entry Payment supplement will be non-taxable and will not be treated as income for social security purposes (although the existing education entry payment of \$208 remains taxable and is treated as income for social security purposes). The lump sum payment and the supplement will be paid from 24 March 2009.

The Education Entry Payment and temporary supplement are available to recipients of a range of benefit payments including Newstart Allowance and Parenting Payment Partnered recipients for approved education and training courses.

Payment of the lump sum Training and Learning Bonus does not preclude payment of the supplement to the Education Entry Payment. If a student attracts the Government's Back to School Bonus they are not eligible for the \$950 lump sum Training and Learning Bonus but are not precluded from the supplement.

## ENVIRONMENT, WATER, HERITAGE AND THE ARTS

### Nation Building and Jobs Plan — Energy Efficient Homes

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of the Environment, Water, Heritage and the Arts	39.0	1,539.5	1,544.0	736.0

The Government will provide \$3.9 billion over four years to improve the energy efficiency of Australian homes through the installation of insulation and increased rebates for solar and heat pump hot water systems.

This measure will provide \$2.7 billion over two and a half years from 2009-10 for the purchase and installation of ceiling insulation in an estimated 2.2 million established homes that are owner-occupied and not currently insulated. The program will meet the costs of installing ceiling insulation up to a cap of \$1,600 per home. As an interim arrangement until 30 June 2009, eligible owner-occupiers who install ceiling insulation in their homes will be able to seek a reimbursement (up to \$1,600) after the program commences on 1 July 2009.

An additional \$612.5 million over two and a half years will be provided to immediately increase the existing rebate to owners of private sector rental homes towards the cost of installing insulation under the Low Emission Plan for Renters program. The rebate will be increased from the current maximum rebate of \$500 per property to up to \$1,000 per property. The existing cap on the number of rebates will also be removed.

A further \$507.0 million over three and a half years will also be provided to immediately increase the existing solar hot water rebate from \$1,000 to \$1,600 for solar and heat pump hot water systems that replace electric storage hot water systems in established homes. The hot water system must be installed in the applicant's principal place of residence. The existing means test for the rebate will be removed.

Eligible households will be able to choose either the insulation rebate or the rebate for solar and heat pump hot water systems. Households who have already received the existing \$1,000 rebate for solar hot water systems may be eligible for the insulation component of the program.

## FAMILIES, HOUSING, COMMUNITY SERVICES AND INDIGENOUS AFFAIRS

### Nation Building and Jobs Plan — Back to School Bonus — One-off Lump Sum Payment of \$950 per FTB-A Eligible Child

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of Families, Housing, Community Services and Indigenous Affairs	2,618.5	-	-	-

The Government will provide funding of \$2.6 billion to provide a one-off bonus of \$950 per school aged child (4 to 18 years) to families entitled to Family Tax Benefit Part A (FTB-A) at 3 February 2009. Payments will be made for around 2.8 million eligible children.

The funding will provide a stimulus for the economy while also assisting families and students with education costs for the 2009 academic year.

The payment is non-taxable and will not be treated as income for social security purposes.

A small number of eligible beneficiaries of the payment, who receive FTB-A as a lump sum, will receive the payment from Centrelink in 2009-10 or 2010-11, after their 2008-09 tax returns have been processed by the Australian Taxation Office. On an underlying cash basis the measure provides funding with an estimated impact of \$2.3 billion in 2008-09 and \$0.3 billion in 2009-10.

Families who elect to receive FTB-A as a lump sum may decide to alter their payment arrangements at any time by notifying Centrelink. They will be paid their one-off bonus once these arrangements have been made.

For those eligible beneficiaries receiving FTB-A as a fortnightly payment, the \$950 bonus per eligible child will be paid from the fortnight beginning 11 March 2009.

If a student attracts the Government's Back to School Bonus they are not eligible for the lump sum Training and Learning Bonus (but are not precluded from the Education Entry Payment Supplement).

The Back to School Bonus is in addition to assistance for education expenses that is available through the Education Tax Refund (ETR). Families entitled to FTB-A in respect of children undertaking primary or secondary school studies for the relevant financial year are also eligible for the ETR.

*Treasury - Updated Economic and Fiscal Outlook - Appendix B: Nation Building and Jobs Plan*

See also the related expense measure titled *Nation Building and Jobs Plan – Training and Learning Bonus and Education Entry Payment* in the Education, Employment and Workplace Relations portfolio.

**Nation Building and Jobs Plan — Farmer’s Hardship Bonus**

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of Agriculture, Fisheries and Forestry	20.4	-	-	-

The Government will provide \$20.4 million in 2008-09 for a one-off bonus payment to farmers and small business receiving Exceptional Circumstances related income support. A lump sum payment of \$950 will be made to people who, on 3 February 2009, are in receipt of:

- Exceptional Circumstances Relief Payments for Farmers;
- Interim Income Support for Farmers;
- Exceptional Circumstances Relief Payments for Small Business;
- Interim Income Support for Small Business;
- Transitional Income Support; or
- Farm Help Income Support.

The payments will be made by Centrelink in the fortnight commencing 24 March 2009, to approximately 21,500 recipients providing additional support to groups of Australians who are in hardship. These bonus payments will be non-taxable and will not be counted as income for social security purposes.

**Nation Building and Jobs Plan — Single Income Family Bonus — One-off Lump Sum Payment of \$950 per FTB-B Family**

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of Families, Housing, Community Services and Indigenous Affairs	1,420.0	97.0	-	-

The Government will provide \$1.4 billion in 2008-09 for one-off bonus payments of \$950 to approximately 1.5 million families who receive Family Tax Benefit Part B (FTB-B). This measure is intended to deliver stimulus for the economy by providing additional assistance to families with children that have one main income earner. Each eligible family will receive one \$950 payment, irrespective of the number of children.

The payments, which will be made by Centrelink in the fortnight commencing 11 March 2009, will be non-taxable and will not be counted as income for social security purposes. The small number of families who claim FTB-B as a lump sum will receive their one-off payments from Centrelink in 2009-10 or 2010-11, after their 2008-09 tax returns have been processed by the Australian Taxation Office.

## INFRASTRUCTURE, TRANSPORT, REGIONAL DEVELOPMENT AND LOCAL GOVERNMENT

### Nation Building and Jobs Plan — boom gates for rail crossings

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of Infrastructure, Transport, Regional Development and Local Government	50.0	100.0	-	-

The Government will provide \$150.0 million over two years to improve road and rail safety by funding the construction of boom gates at rail crossings.

There are around 9,400 rail crossings across Australia, with the vast majority having no form of active protection. Projects will be prioritised using the Australian Level Crossing Assessment Model (ALCAM), a safety risk assessment tool used across Australia.

### Nation Building and Jobs Plan — Regional and Local Community Infrastructure Program — Strategic Projects — additional funding

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of Infrastructure, Transport, Regional Development and Local Government	250.0	250.0	-	-

The Government will provide an additional \$500 million over two years to support large strategic projects being undertaken by local governments including the construction of community infrastructure such as town halls, community centres and sport and recreation facilities.

This measure will allow a greater number of projects to be funded from the current applications for the Local Community Infrastructure Program. This measure is in addition to the \$300 million in 2008-09 for the Regional and Local Community Infrastructure Program announced at the Inaugural meeting Australian Council of Local Governments on the 18 November 2008.

**Nation Building and Jobs Plan — Repairing regional links on the national highway network**

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of Infrastructure, Transport, Regional Development and Local Government	150.0	-	-	-

The Government will provide funding of \$150.0 million in 2008-09 to repair regional links on the national highway network. In addition to preventing the deterioration of national highways this initiative will create jobs in regional Australia, including areas where jobs are being lost due to a contraction of activity in the mining sector.

**Nation Building and Jobs Plan — Road safety — Black Spot Program — additional funding**

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of Infrastructure, Transport, Regional Development and Local Government	30.0	60.0	-	-

The Government will provide further additional funding of \$90 million over two years for the road safety Black Spot Program. The program reduces the social and economic costs of road accidents through the identification and cost effective treatment of dangerous locations on Australian roads.

This measure is in addition to the \$60 million increase in funding in 2008-09 for this program announced as part of the Government's Nation Building Package on 12 December 2008.

## TREASURY

### Nation Building and Jobs Plan — Investment in Social Housing — reducing homelessness and meeting priority needs

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Department of the Treasury	260.0	4,072.0	1,744.0	312.0

The Government will provide up to \$6.0 billion over four years to invest in 20,000 additional public and community housing dwellings to meet priority social housing needs, including reducing homelessness. The Government will also provide \$200.0 million in 2008-09 and \$200.0 million in 2009-10 for repairs to existing public housing stock. The additional housing provided by this measure will accelerate progress towards the Government's target of halving homelessness by 2020, announced in the White Paper on Homelessness, and builds on the social housing and homelessness initiatives agreed by the Council of Australian Governments on 29 November 2008.

Funding for this housing will be allocated in two stages. In the first stage, States and Territories will be provided with additional funding to bring forward the construction of public housing units currently in the development pipeline. It is expected this construction will be able to commence almost immediately after agreements have been signed with the States and Territories.

In the second stage, funding will be allocated to States and Territories following a Commonwealth approved public tender processes for the construction of housing designed and located to meet priority social housing needs, including reducing homelessness. This initiative will also require states to deliver reforms to public and community housing to improve efficiency, reduce concentration of stock and promote economic participation.

### Nation Building and Jobs Plan — Tax Bonus for working Australians

Expense (\$m)	2008-09	2009-10	2010-11	2011-12
Australian Taxation Office	8,150.0	1.0	-	-

The Government will provide \$8.2 billion to eligible taxpayers as a Tax Bonus.

The Bonus of up to \$950 will be available from April 2009 to eligible Australian resident taxpayers who paid tax for the 2007-08 financial year after taking into account available tax offsets and imputation credits. It is expected that around 8.7 million taxpayers will receive the Bonus.

The Bonus is subject to an income threshold. A \$950 bonus will be paid to eligible taxpayers with a taxable income in 2007-08 of up to \$80,000. A \$650 Bonus will be paid to eligible taxpayers with a taxable income in 2007-08 exceeding \$80,000 to \$90,000, and a \$300 Bonus will be paid to eligible taxpayers with a taxable income in 2007-08 exceeding \$90,000 to and including \$100,000.

In the majority of cases the Tax Bonus for working Australians will be paid before 30 June 2009, at an estimated cost of \$6.9 billion in 2008-09 on an underlying cash basis. Remaining amounts will be paid in 2009-10, at an estimated cost of \$1.2 billion on an underlying cash basis.

Taxpayers should lodge their 2007-08 tax return by 30 June 2009 to be eligible for the bonus. The Government will provide the Australian Taxation Office with additional funding of \$50 million over the forward estimates period to implement this measure.