

## Economic Statement

August 2013

On 2 August 2013 the Treasurer, the Hon. Chris Bowen MP, and Minister for Finance and Deregulation, Senator the Hon. Penny Wong, released an Economic Statement to provide an update of the Government's economic forecasts and key fiscal aggregates. The Statement provides revised growth and revenue forecasts, and outlines planned spending cuts and tax increases to ensure a return to Budget surplus in 2016-17.

The Treasurer's media release on the Statement is available [here](#).

The full Economic Statement can be accessed [here](#).

### Revised Economic and Fiscal Outlook

The Economic Statement provided a revised economic and fiscal outlook since the Budget was handed down in May.

Australia's terms of trade have been revised down significantly in response to a weaker outlook for world growth and falling world prices for key commodities. This, along with lower forecast real GDP growth and a weaker outlook for wage growth, has led to a substantial downgrade to nominal GDP growth over the forward estimates.

Key aspects of the revised economic outlook include:

- Nominal GDP growth was revised from 5 per cent in the Budget to 3.75 per cent in 2013-14 and from 5 per cent to 4.5 per cent in 2014-15.
- Real GDP growth is expected to be 2.5 per cent in 2013-14, rather than 2.75 per cent as predicted in the May Budget.
- Inflation is forecast to be higher than predicted for 2013-14 (2.5 per cent) and lower in 2014-15 (2 per cent).
- Unemployment is expected to peak at 6.25 per cent for both the 2013-14 and 2014-15 fiscal years.

This updated economic outlook has led to a downgrade in revenue of \$33.3 billion over forward estimates. The expected deficit in 2013-14 is now \$30.1 billion, and the expected deficit in 2014-15 is now \$24 billion.

## **Budget Measures**

In response to the fall in forecast revenue, the Government announced \$17.4 billion in tax increases and spending cuts comprised of:

- a 60 per cent cumulative increase in the levy on tobacco (\$5.3 billion);
- an increase to the public service efficiency dividend to 2.25 per cent per annum for the three years from 2014-15 (\$1.8 billion);
- an increase to visa application charges (\$540 million over the forward estimates);
- a reduction in Official Development Assistance over the forward estimates (\$879 million over the forward estimates);
- a Financial Stability Fund funded by a deposit levy (\$733 million over the forward estimates from 1 January 2016); and
- an increase to the threshold below which small inactive superannuation accounts are required to be transferred to the ATO (\$520 million over the forward estimates).

These changes are to apply from 2015-16 onward, with the Government on track to return to a surplus of \$4.0 billion in 2016-17.

## **Financial Stability Fund**

In response to a recommendation from the Council of Financial Regulators, the Government will also be establishing a dedicated Financial Stability Fund to protect deposits, including those covered by the Financial Claims Scheme (FCS). The fund will build over time to a target size of 0.5 per cent of total deposits protected by the FCS. The Fund is expected to add \$733 million to the budget over the forward estimates from 1 January 2016.

## **National Competitiveness Agenda**

In the Statement, the Government also reiterated its commitment to higher productivity growth as the key to ensuring a smooth transition to new sources of growth, improving living standards and longer term prosperity. The Government will work cooperatively with business and the unions to lift Australia's annual productivity growth rate to 2 per cent or better through its National Competitiveness Agenda.

The Hawker Britton Occasional Paper on the National Competitiveness Agenda can be accessed [here](#).