

Pre-Election Fiscal Outlook

August 2013

On 13 August 2013 the Secretary to the Treasury and the Secretary of the Department of Finance and Deregulation released the Pre-Election Economic and Fiscal Outlook report (PEFO) to provide updated information on the Government's economic and fiscal outlook. The 2013 PEFO updates the estimates contained in the 2013-14 Budget and the 2 August 2013 Economic Statement (Economic Statement). Like the Economic Statement, the economic forecasts underpinning the PEFO take into account information contained in the March quarter national accounts.

The PEFO can be accessed on the Treasury website [here](#).

The Hawker Britton Occasional Paper on the 2 August Economic Statement is available [here](#).

Economic Outlook

The major economic parameters remain unchanged between the PEFO and the Economic Statement, which provided a revised economic and fiscal outlook following the May Budget.

Table 1: Summary of budget aggregates

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

(a) Excludes net Future Fund earnings.

In the Economic Statement, Australia's terms of trade were 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, led to a substantial downgrade to nominal GDP growth over the forward estimates.

The key figures from the PEFO include:

- nominal GDP growth is predicted to be 3.75 per cent in 2013-14 and 4.5 per cent in 2014-15;
- real GDP growth is expected to be 2.5 per cent in 2013-14, and 3 per cent in 2014-15;
- inflation is forecast to be 2.5 per cent in 2013-14 and 2 per cent in 2014-15; and
- unemployment is expected to peak at 6.25 per cent for both the 2013-14 and 2014-15 fiscal years.

The major economic parameters are listed in Table 2.

Table 2: Major economic parameters^(a)

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

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

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

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

Fiscal outlook

The PEFO predicts a downgrade in revenue of \$33.3 billion over forward estimates. The expected deficit in 2013-14 is \$30.1 billion, and the expected deficit in 2014-15 is \$24 billion. Since the Economic Statement, parameter and other variations have resulted in an increase to the underlying cash balance of \$2 million in 2013-14.

The PEFO also revises the forecast surplus for 2016-17. The PEFO predicts the surplus will be \$4.2 billion, higher than the \$4 billion announced on in the Economic Statement. This revised surplus reflects updated assumptions of a slightly lower exchange rate, which has an impact on both payments and receipts. Table 3 below provides a summary of the major budget aggregates.

Table 3: Australian Government general government sector budget aggregates

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

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

(b) Excludes net Future Fund earnings.

Policy decisions taken since the Economic Statement decreased the underlying cash balance by around \$1 million in 2013-14. They include:

- funding for Priority Health Initiatives (\$266 million over the forward estimates); and
- a contribution to the redevelopment of the Royal Victorian Eye and Ear Hospital (\$50 million in 2014-15 and in 2015-16).

These decisions have been broadly offset over the forward estimates through the reversal of a number of decisions previously taken but not yet announced by the Federal government (\$331 million over the four years to 2016-17), and the lower than estimated costs of finalising negotiations on the Better Schools Plan (\$156 million over the four years to 2016-17). Table 4 provides a reconciliation of the underlying cash balance estimates from the 2103-14 Budget to the 2 August 2013 Economic Statement and the 2013 PEFO.

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

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

(a) Excludes net Future Fund earnings.

(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

(c) A positive number for receipts indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.