Australian Government
The Treasury

Fiscal policy and the outlook

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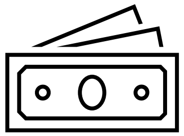
What is our relation to fiscal policy?

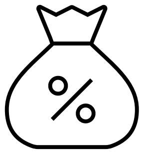
- Treasury is the Government's lead economic adviser.
- We provide advice to the Treasurer and Government as input into their decisions.
- Governments (or Parliaments) make the decisions.
- We also implement policies and programs that have been decided by the Government and Parliament.
- Our aim is to achieve strong and sustainable economic and fiscal outcomes for Australians.
- Treasury does this through one arm of macroeconomic policy: **fiscal policy**.

What is Fiscal Policy?

- The government has two levers to determine fiscal policy:



Spending



Taxation

- The government has to make choices about its aggregate fiscal position and which spending and tax decisions to take.
- Spending and taxation to:
  - **Allocate resources** (e.g. public goods, internalise externalities, address monopolies and imperfect information)
  - **Redistribute resources** (marginal income tax system, social security, lending)
  - **Stabilising the economy** (e.g. automatic stabilisers, discretionary spending during COVID-19)

Fiscal Policy - impact on the economy

- **Keynesian Economics**: Increased spending and tax cuts to boost aggregate demand, reduce unemployment, and stimulate economic growth – or conversely fiscal tightening to lean against strong growth
- **Individuals**: Fiscal policy affects individuals through changes in taxes and government spending, influencing disposable income, job opportunities, and access to public services.
- **Long-Term Focus**: Fiscal policy is suited for addressing long-term economic stability and goals - with the exception of extreme scenarios (e.g. COVID)
- **Potential growth**: Government spending and taxing polices can increase the supply potential in the economy, increasing the long-term growth rate (e.g. new infrastructure, incentives to work, skills)

Discretionary vs non-discretionary spending

Non-discretionary spending (automatic stabilisers)

Occurs automatically without the need for new policy decisions each year:

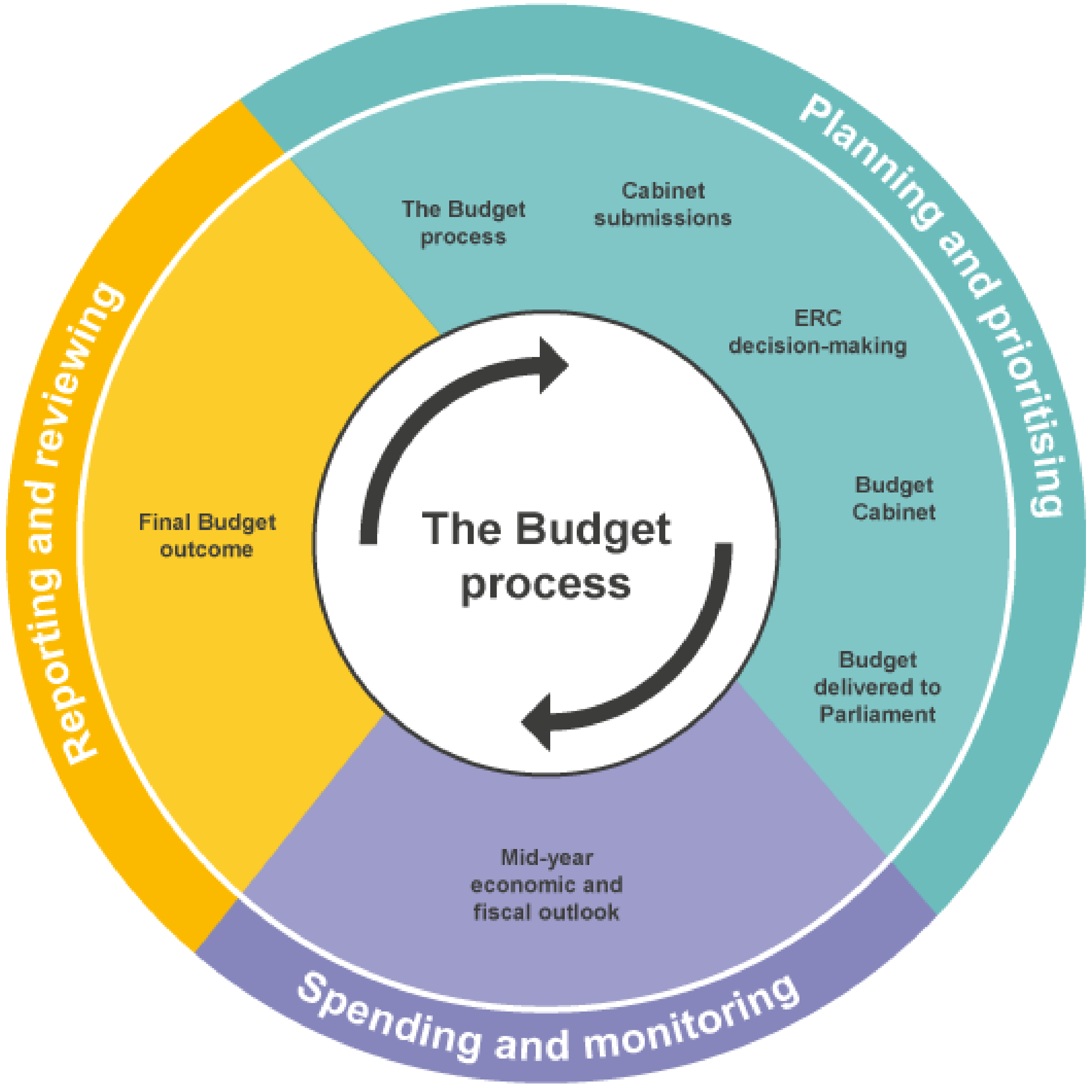
- Unemployment benefits
- Age Pensions
- Interest payments on government debt

Discretionary spending

Decided through the annual budget process based on policy priorities:

- Defence spending
- Infrastructure projects
- Stimulus packages in response to economic crises (GFC, COVID-19)

The Budget process



Setting the Government's Budget Priorities

Why is it important?

- Limited resources require the Government to decide what issues are most important

What informs Government priorities?

- Internal and external factors:
  - Economic and fiscal conditions (e.g. economic upturns/ downturns)
  - Global/domestic events (e.g. COVID-19, foreign wars, natural disasters)
- Election commitments / Government's policy agenda
- Pre-Budget Submissions from the Australian public

When are these set?

- Generally, before a Budget and Mid-Year Economic and Fiscal Outlook (MYEFO) process commences
- Priorities may be revisited during a Budget or MYEFO process

ERC: the Budget decision-makers


Prime Minister (Chair)


Treasurer (Deputy Chair)


Deputy PM/Minister for Defence


Minister for Foreign Affairs


Minister for Finance


Minister for Health and Ageing/ Minister for Disability and NDIS


Minister for Infrastructure, Transport, Regional Development and Local Government


Minister for Employment and Workplace Relations


Assistant Treasurer/ Minister for Financial Services

- The **Expenditure Review Committee** (ERC), a sub-committee of Cabinet, focuses on matters with financial implications.
  - ERC evaluates policy proposals by weighing up the different issues.
- ERC Ministers are supported with advice on Budget proposals by their departments.

Budget Rules and Principles

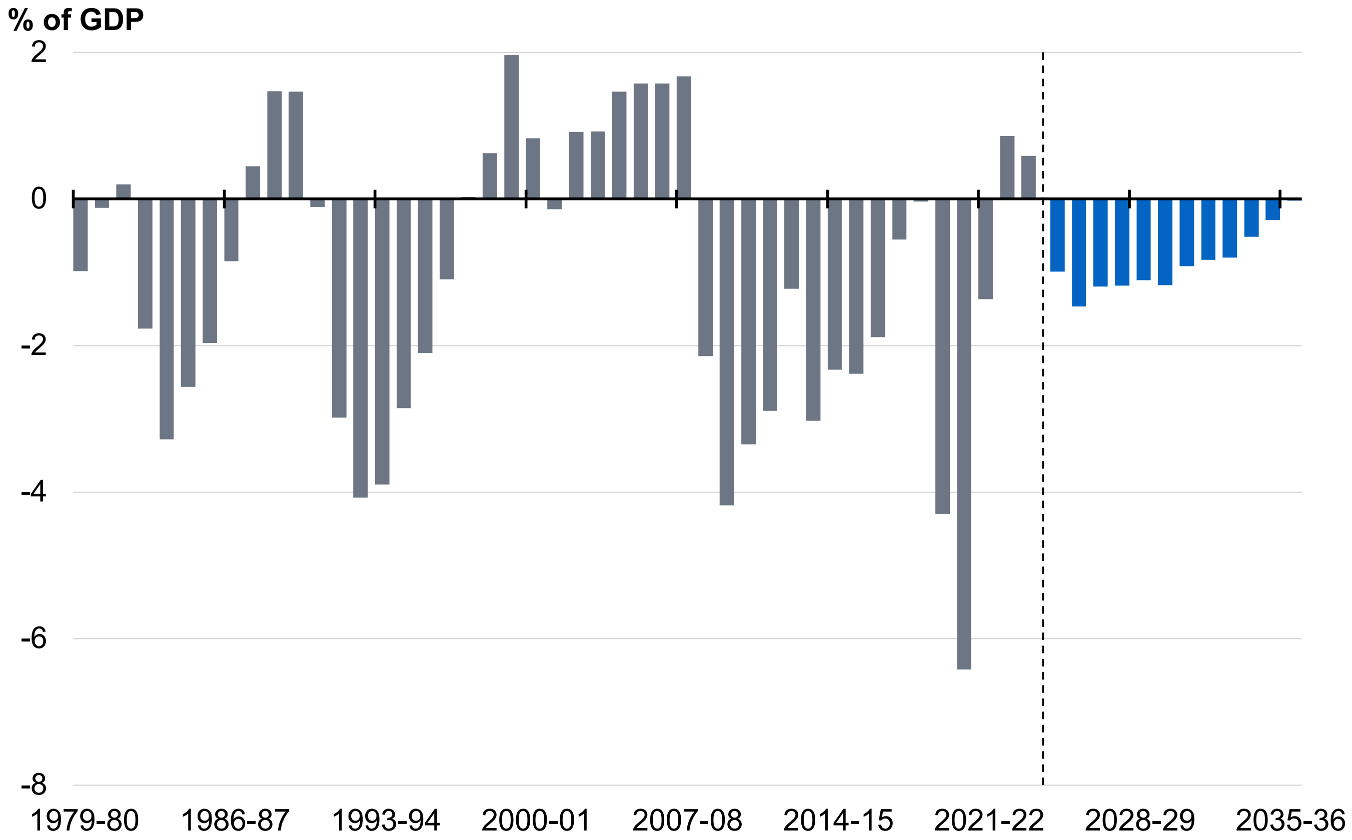
- The *Charter of Budget Honesty Act 1998* sets out principles and requirements that guide the government's management of fiscal policy.
  - Requires that a Budget is produced once a year and a MYEFO is required within 6 months of the last Budget.

- The Budget Process Operational Rules are a set of mandatory rules that outline the management of the Budget and related processes.
  - Support the implementation of the Government's priorities to be consistent with the Economic and Fiscal Strategy.
  - Guide the development of ERC policy proposals.

Fiscal policy and the outlook

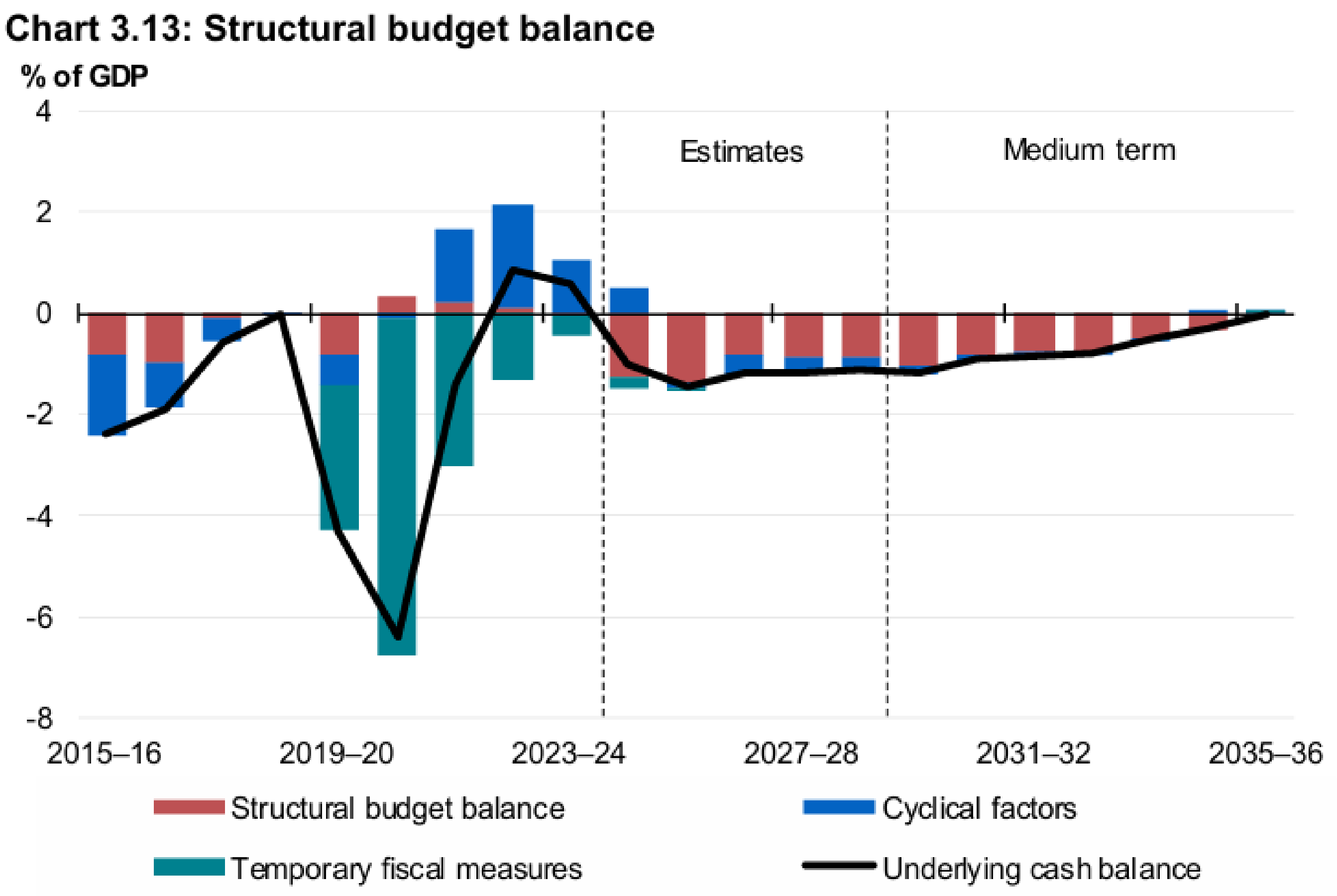
Budget bottom line

Underlying cash balance as a per cent of GDP



- The underlying cash deficit is forecast to peak at $42.1 billion (1.5 per cent of GDP) in 2025-26, before improving to $36.9 billion (1.1 per cent of GDP) in 2028-29 and returning to balance in 2035-36.

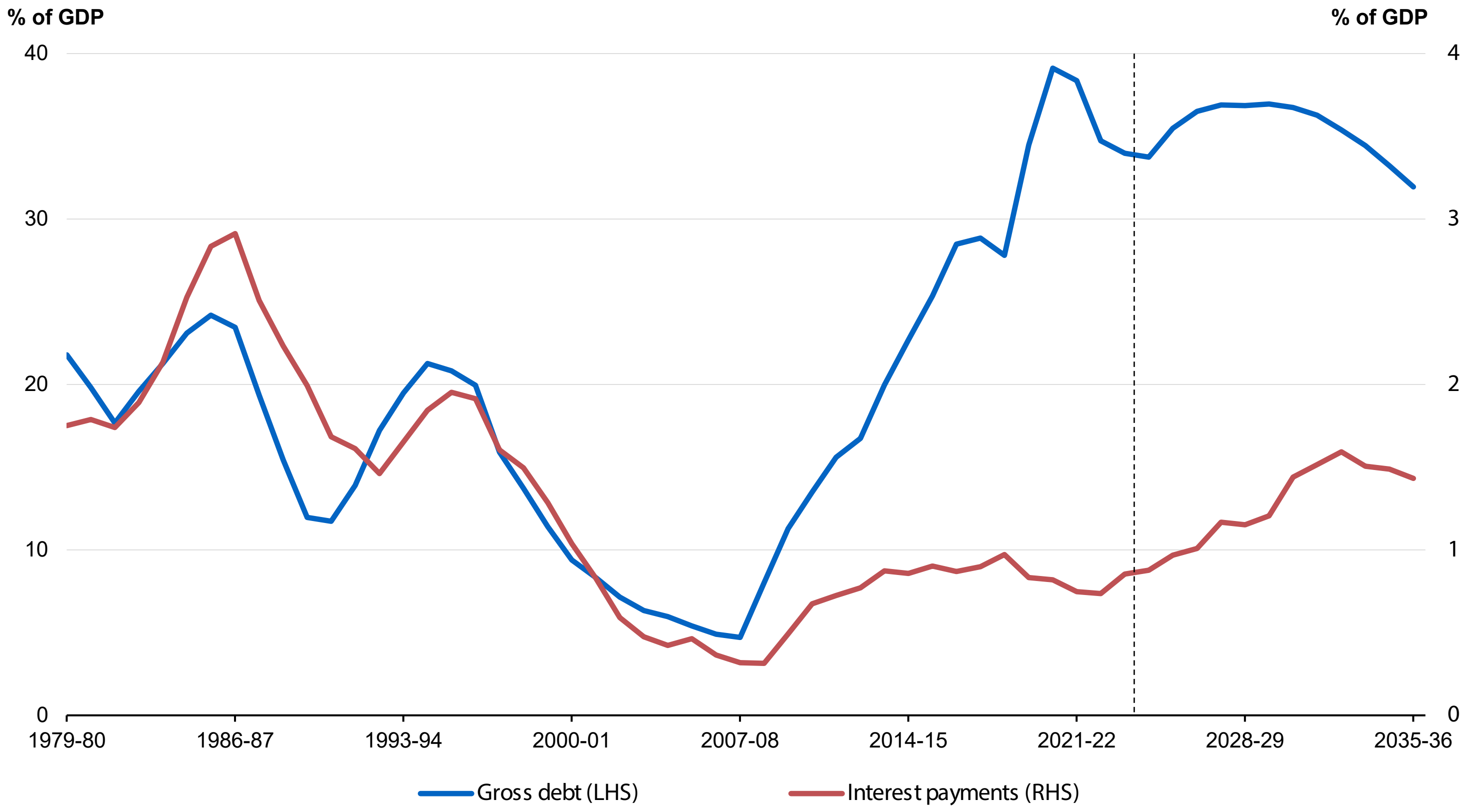
The structural budget balance



- Expected to return to deficit in 2025, with a deficit of 1.4% of DP in 2025-26. The structural budget balance will remain in deficit over the medium-term, before returning to equilibrium.
- Growth in payments is projected to lead a deficit (more on in later slides)

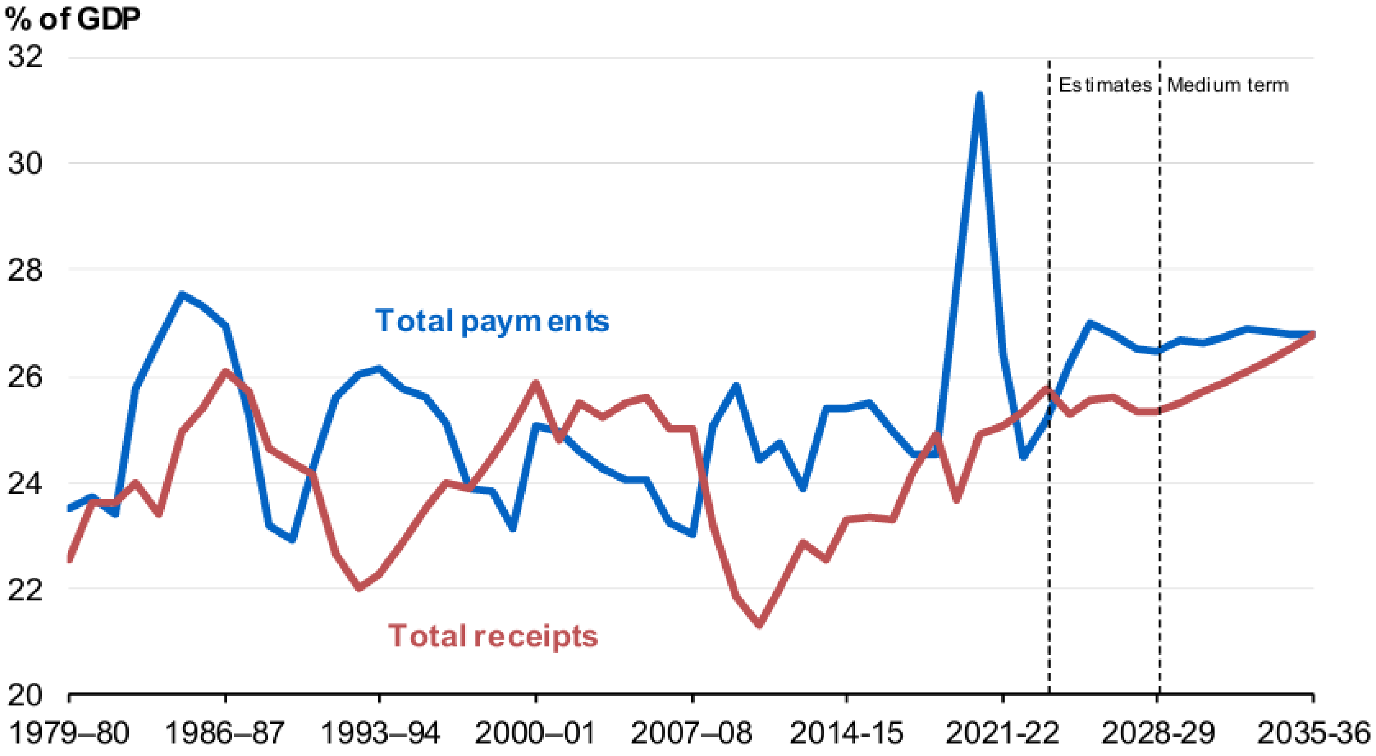
Budget sustainability to 2035-36

Gross debt as a per cent of GDP



- Gross debt is estimated to be 35.5 per cent of GDP ($1 trillion) in 2025-26.
- Total interest payments as a share of GDP is estimated to be 1.0 per cent in 2025-26, and increase to 1.2 per cent across the forward estimates.
- Interest payments reflect both the size of debt and the yields on government bonds.

Payments and receipts

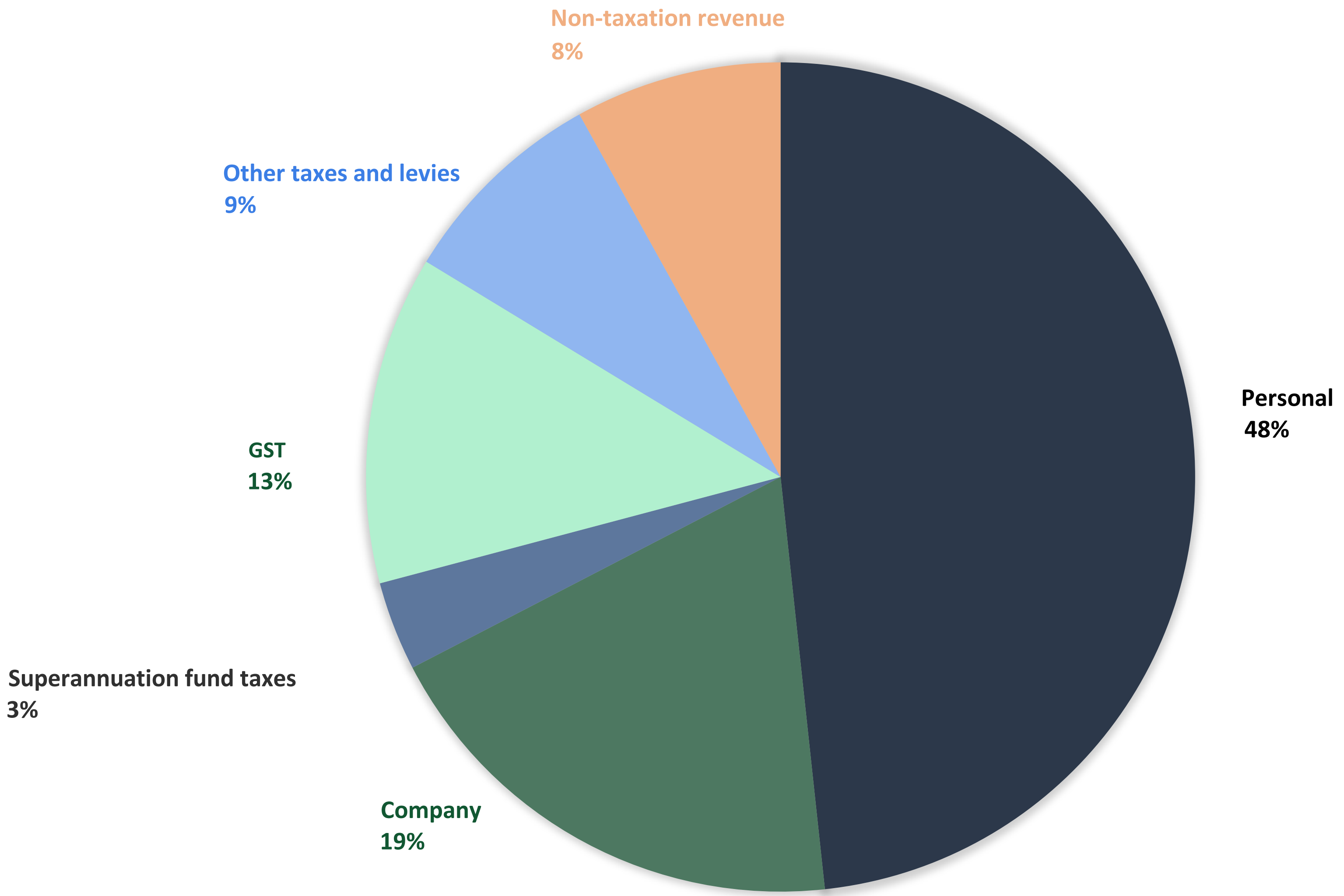


Source: Treasury.

- Payments as a share of GDP are expected to remain broadly consistent, peaking at 27.0 per cent in 2024-25, before falling to 26.8 per cent in 2035-36.
- Total receipts as a share of GDP (including taxation and non-taxation receipts) are expected to increase from 25.3 per cent in 2028-29, to 26.8 per cent in 2035-36.
- Increase in tax receipts due in part to bracket creep.

Where the money comes from (revenue)

Federal Government revenue ($750.3 billion) by source, 2025-26 Budget.



Where the money goes (payments)

Federal Government spending ($785.7 billion) by function, 2025-26 Budget.