Australian Government
The Treasury

Fiscal policy and the outlook

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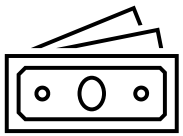
What is our relation to fiscal policy?

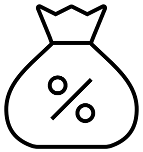
- Treasury is the Government's lead economic adviser.
- We provide advice to the Treasurer and Government as input into their decisions.
- Governments (or Parliaments) make the decisions.
- We also implement policies and programs that have been decided by the Government and Parliament.
- Our aim is to 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)

Australia's Fiscal System

The **Federal Government** raises money through taxing incomes, spending and businesses.

Federal matters such as:

- Medicare
- Defence
- Immigration
- Foreign policy

State/Territory Government receive more than half their money from the federal government and also collect taxes.

State matters such as:

- Roads
- Housing
- Prisons
- Public transport
- Police and ambulance services

Local Councils collect taxes (rates) from all local property owners and receives money from the federal and state governments.

Local matters such as:

- Town planning
- Sewerage
- Local roads
- Rubbish collection

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:

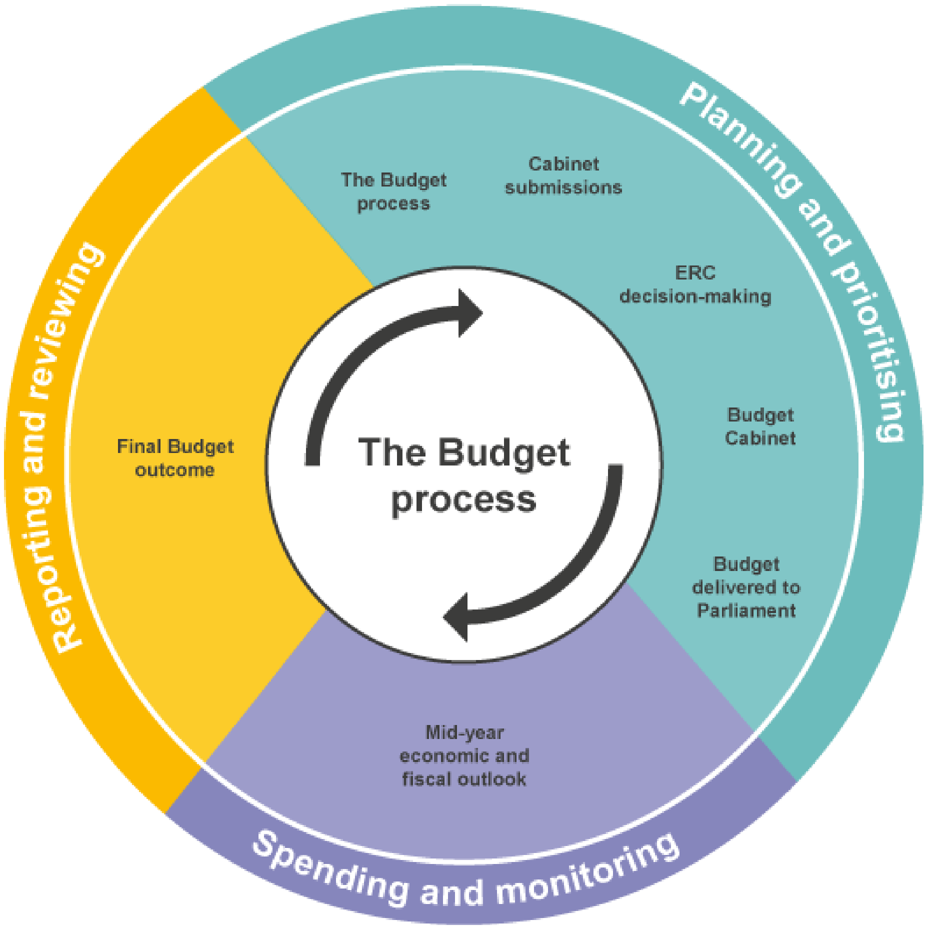
- Unemployment benefits
- Age Pensions
- Interest payments on government debt

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.

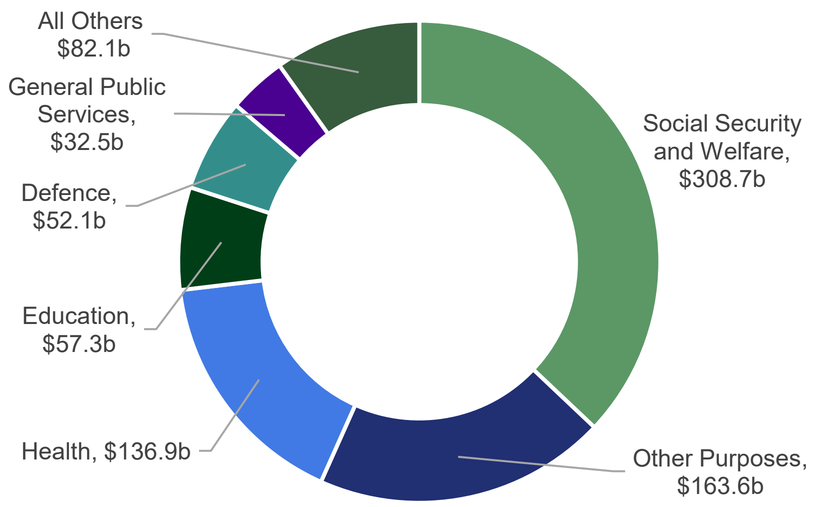
Fiscal policy and the outlook

Economic and fiscal strategy in the Budget

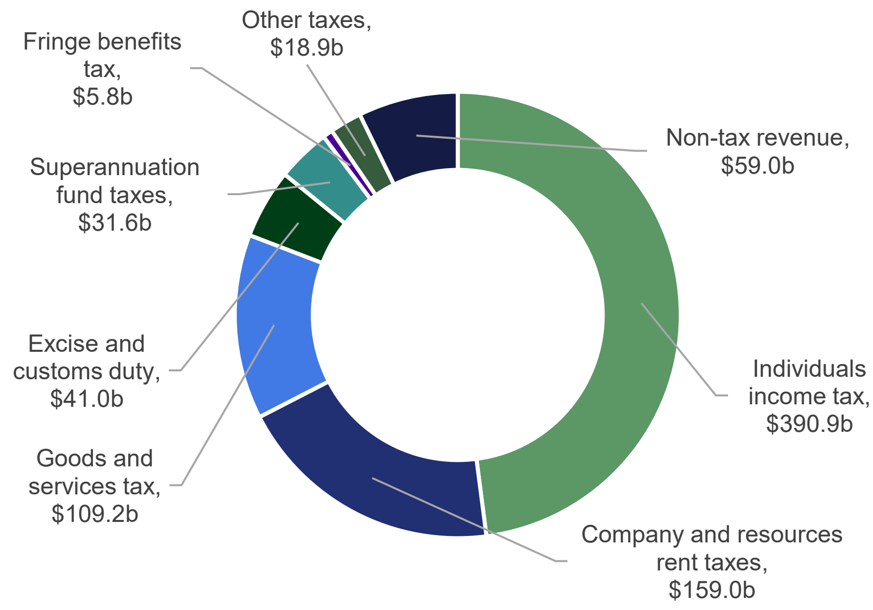
- Guides Budget priorities: spending, revenue, debt and investment
- Supports AAA credit rating and long-term fiscal resilience
- Medium-term outlook (6-7 years): provides flexibility to manage shocks (e.g. COVID-19)
- Found in Budget Paper No. 1

Government Expenditure and Revenue

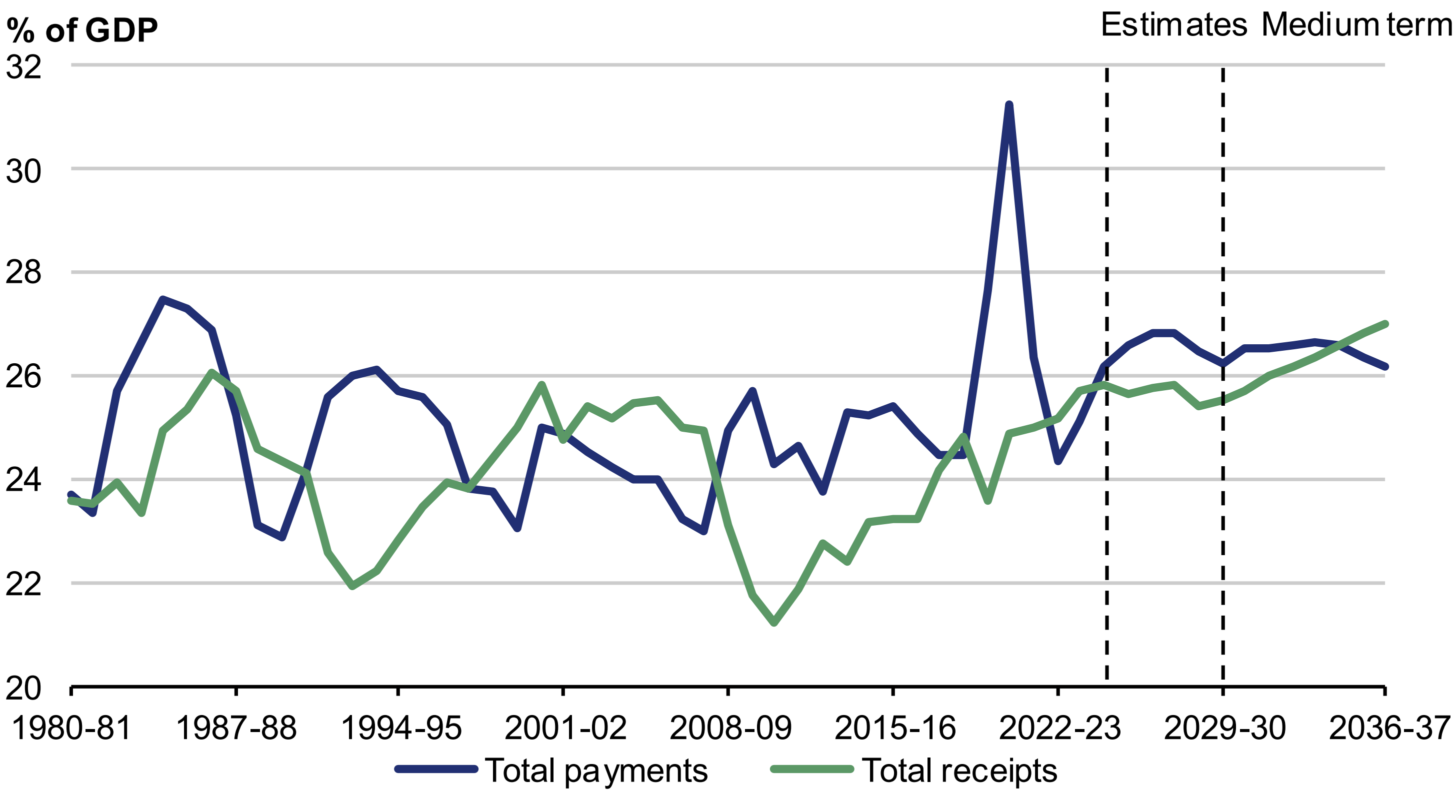
Panel A: Federal Government spending by function in 2026-27 ($833 billion)



Panel B: Federal Government revenue by source in 2026-27 ($815 billion)



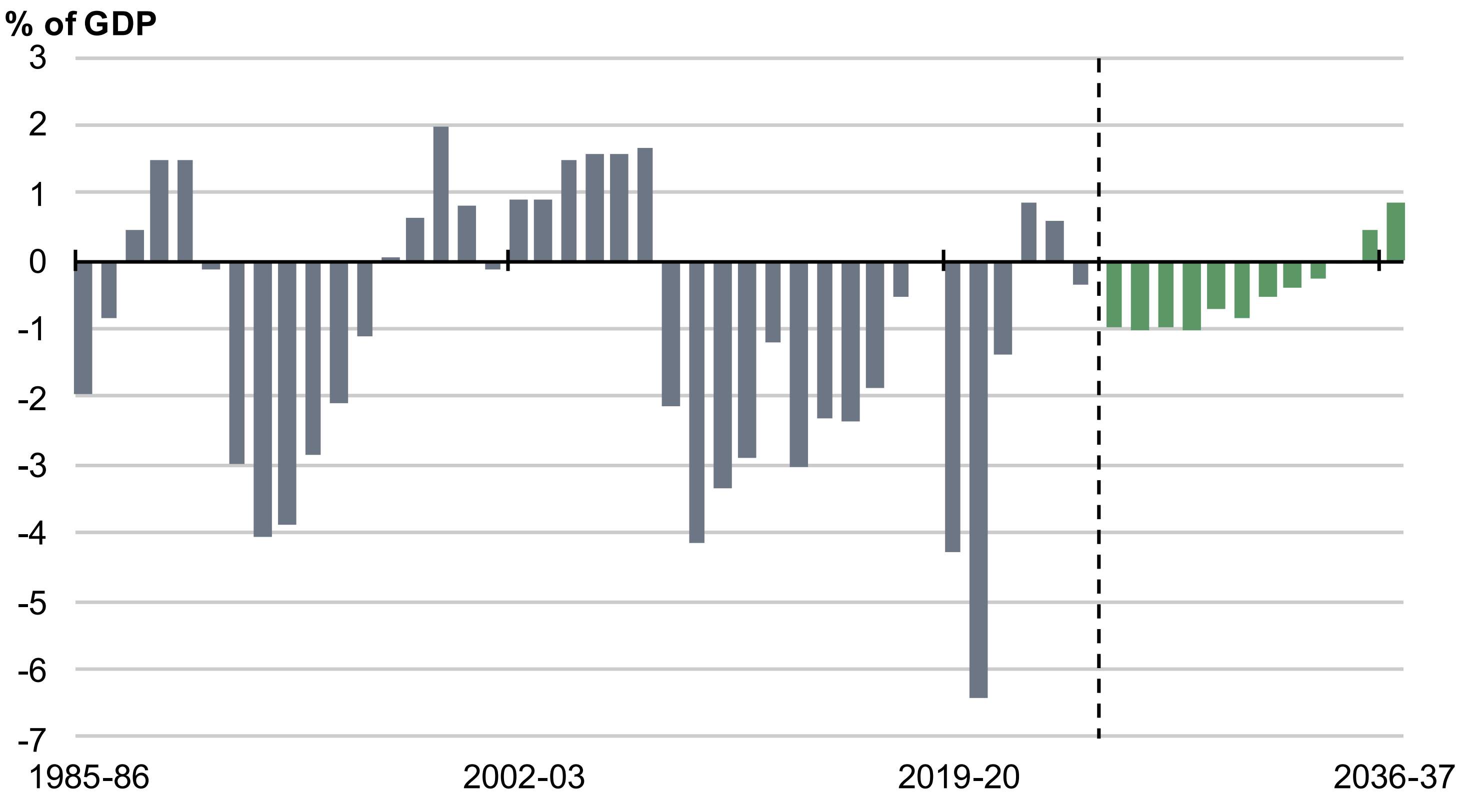
Payments and receipts



- Payments as a share of GDP are expected to remain broadly consistent, peaking at 26.8 per cent in 2026-27, remaining broadly stable at around 26.6 per cent from 2030–31 to 2034–35, before falling to 26.2 per cent by 2036–37.
- Total receipts as a share of GDP (including taxation and non-taxation receipts) are expected to increase from 25.5 per cent in 2029-30, to 27.0 per cent in 2036-37.
- Increase in tax receipts due in part to bracket creep.

Budget bottom line

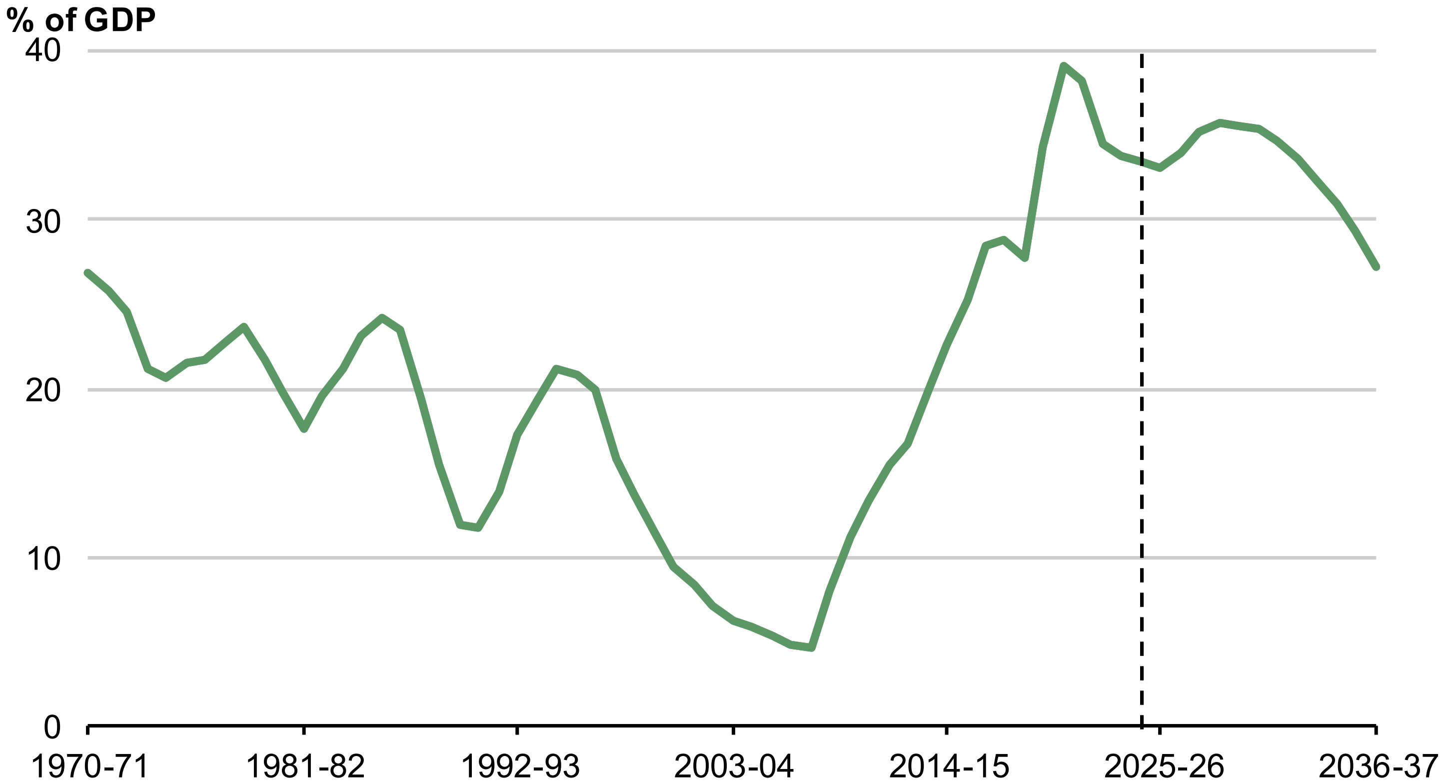
Underlying cash balance as a per cent of GDP



- The underlying cash deficit is forecast to peak at $34.4 billion (1.0 per cent of GDP) in 2028-29, before returning to balance in 2034-35, improving to a surplus of $21.0 billion (0.4 per cent of GDP).

Budget sustainability to 2035-36

Gross debt as a per cent of GDP



- Gross debt is estimated to be 34.0 per cent of GDP ($1.1 trillion) in 2026-27.

Thank you for listening