



## **5<sup>th</sup> Time Lucky for Treasurer Swan**

### **Commonwealth & State**

### **Government 2012-13**

## **Budget Bulletin**

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*What follows is a detailed examination of the Australian Government and States budget forecasts before Budget. This publication provides a full update of likely parameter changes since the mid-year update. Along the way each jurisdiction's overall fiscal and budgetary performance is assessed, along with risks to the outlook. To our knowledge this publication is the only one-stop budget and economic bulletin examining every Australian government. Enjoy!*

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*The forecasts and projections contained in this Budget Bulletin are subject to unavoidable statistical variation. While all care has been taken to ensure that the statistical variation is kept to a minimum, care should be exercised whenever using this information. Also, our forecasts and projections only take into account information that was available to **Macroeconomics** up to the date of this report and so its findings may be affected by new information. Should you require clarification of any material, please contact us.*



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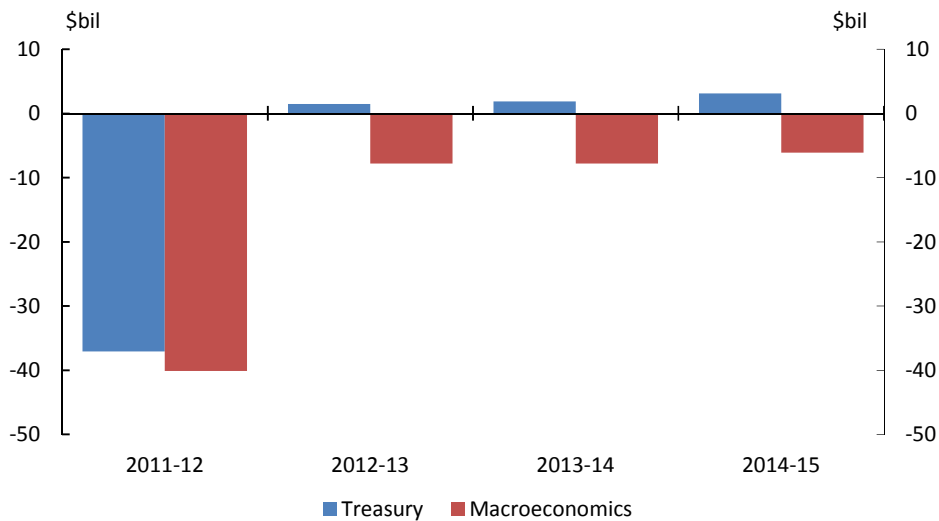
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## Executive Summary

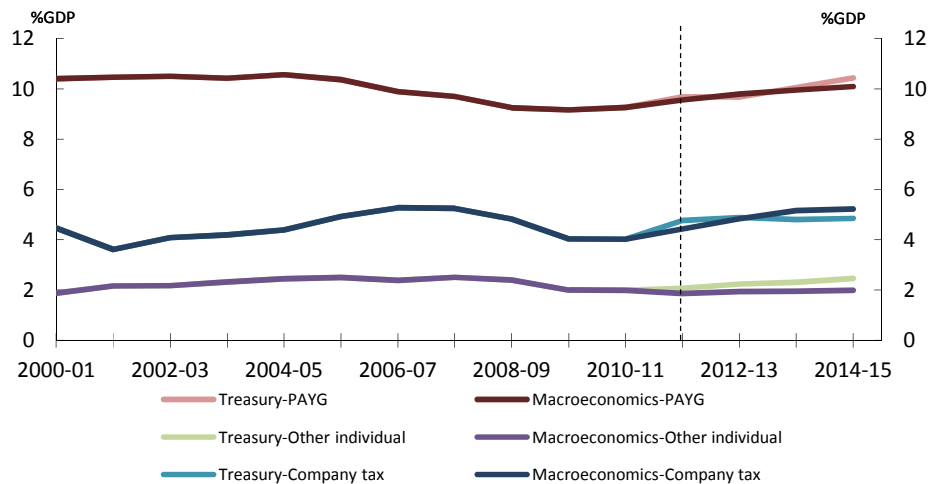
When Wayne Swan releases his fifth budget on 8 May it will reveal the true size of the discretionary spending cuts required to return the Budget to surplus in 2012-13 and beyond. These are likely to be bigger than currently anticipated. The document will remind us that the Australian economy and Australian Government Budget in early 2012 is subject to a softening in activity driven by global financial market instability in late 2011 which undermined business confidence in the domestic economy and dampened tax receipts.

**Chart 1: Budget Forecasts Comparison**



Source: Macroeconomics' estimates and MYEFO 2011-12.

**Macroeconomics'** budget tracking model now has the Commonwealth Budget in cash deficit by **\$8 billion** dollars (around **0.5 per cent** of GDP) in 2012-13 (**Chart 1**). This is a **\$10 billion** deterioration compared to Treasury at the publication of the Mid-Year Review due in large part to a **\$6 billion** shortfall in expected business tax receipts associated with the general slowing in the non-mining domestic economy, compared to MYEFO (**Chart 2**).

**Chart 2: Variation in Key Revenue Heads**

Source: Macroeconomics' estimates and Budget Papers.

So the Treasurer **can't** keep his 2012-13 surplus commitment on Budget night unless he delivers solid offsetting discretionary spending cuts or tax increases (**Macroeconomics'** budget estimates do not include the impact of new policy decisions). In other words, the 2012-13 Budget must include the necessary **cuts** to allow the Treasurer *to deliver*, rather than just promise a surplus.

- The Treasurer is in this predicament, in part, because of unexpectedly low revenue receipts driven by factors such as the declining terms of trade, lower capital gains receipts due to higher carried forward losses (especially associated with trusts) which accumulated during GFC Mark I, and company tax receipts that are being eroded by the high \$A and larger depreciation write-offs associated with the investment phase of China Boom II.
- The Treasurer is in this predicament, mostly, because in four budgets up to 2012-13, he has a track record as a *net* discretionary policy spender who failed to do the necessary heavy lifting with Finance Minister Penny Wong last year to ensure a return surplus regardless of softer revenue outcomes in the past few months.

In 2013-14, we expect that without policy change the Gillard Government will run a budget deficit of around **\$8 billion (0.5 per cent of GDP)**. For the out years, without policy change the Gillard Government will run deficits of similar size each year for 2014-15 to 2015-16. We concur with Treasury Secretary Martin Parkinson that any likely budget surpluses will be at best *wafer thin* without policy change over the outlook. Commonwealth net debt is