



BRIEFING PAPER

2021-22 Australian Budget overview



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CANBERRA

Centre for International Economics
Ground Floor, 11 Lancaster Place
Canberra Airport ACT 2609

Telephone +61 2 6245 7800
Facsimile +61 2 6245 7888
Email cie@TheCIE.com.au
Website www.TheCIE.com.au

SYDNEY

Centre for International Economics
Level 7, 8 Spring Street
Sydney NSW 2000

Telephone +61 2 9250 0800
Email ciesyd@TheCIE.com.au
Website www.TheCIE.com.au

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Political context

The Australian Treasurer, Josh Frydenberg, described the following policy items as the focus of the 2021-22 Australian Budget:¹

- securing the recovery and creating jobs
- tax relief
- supporting housing and small business
- record investment in skills and training
- targeted investment in childcare as a driver of higher workforce participation and women's economic security
- facilitating a dynamic and competitive economy
- guaranteeing essential services
- sustaining the National Disability Insurance Scheme
- enhancing the viability and sustainability of the residential aged care sector
- committing more resources to mental health
- providing record funding in education
- investing in women's safety
- improving economic security in retirement
- resources to help Australians prepare, respond and recover from these natural disasters, and
- enhancing national security.

Net debt

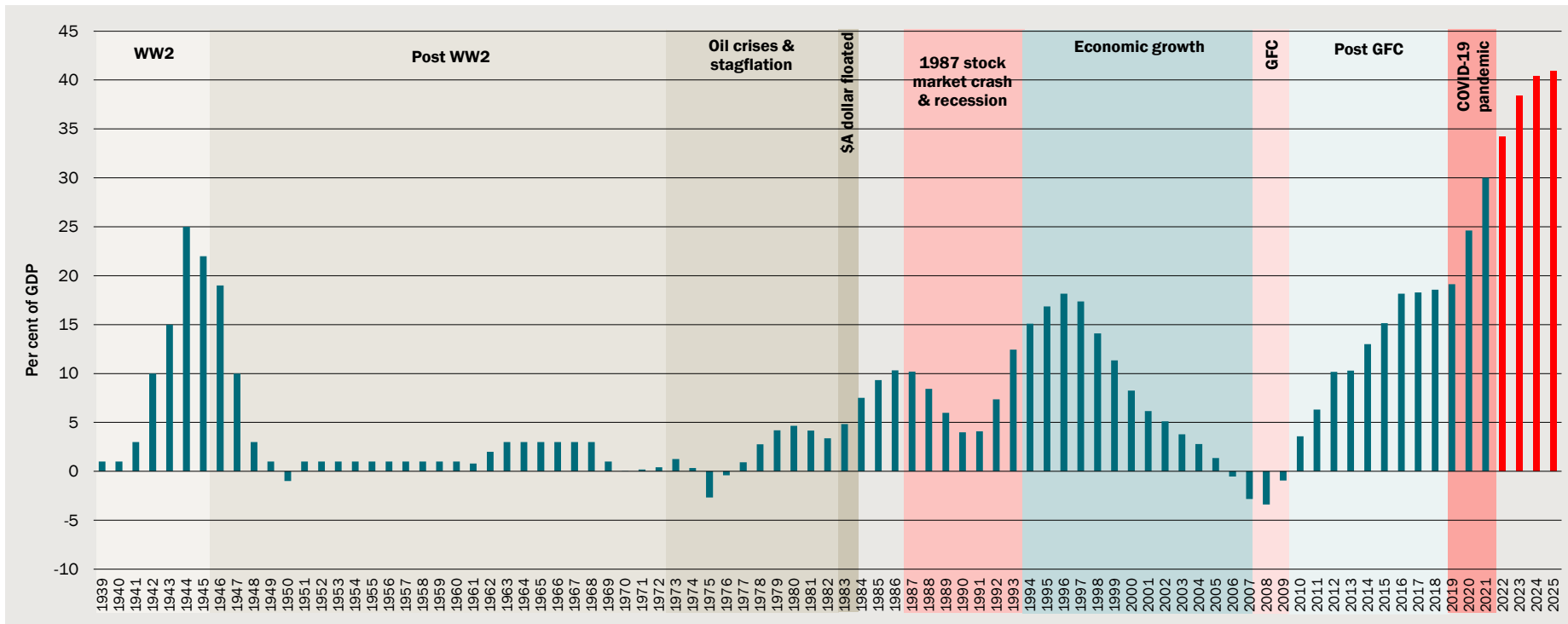
- Australian Government net debt² is currently \$617.5 billion, 30 per cent of GDP and forecast to rise to \$980.6 billion, 41 per cent of GDP in 2024-25.³ Chart 1 shows net debt:
 - is much larger than restructuring stimulus that came out of the early 1990s recession 'we had to have', and
 - estimates show we are above post war recovery spending.
 - ... Although net debt figures prior to 1970 are not bonefide comparable (official net debt was not recorded).

¹ The Hon. Josh Frydenberg Treasurer 2021, 'Budget Speech 2021-22: Securing Australia's recovery', <https://ministers.treasury.gov.au/ministers/josh-frydenberg-2018/speeches/budget-speech-2021-22>

² Defined as the sum of interest bearing liabilities, minus the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements)

³ Australian Government 2021, 'Budget 2021-22', Budget Paper No. 1, Table 3.9: Australian Government general government sector net financial worth, net debt and net interest payments, p. 93, <https://budget.gov.au/2021-22/content/bp1/index.htm>

1 Australian Government net debt



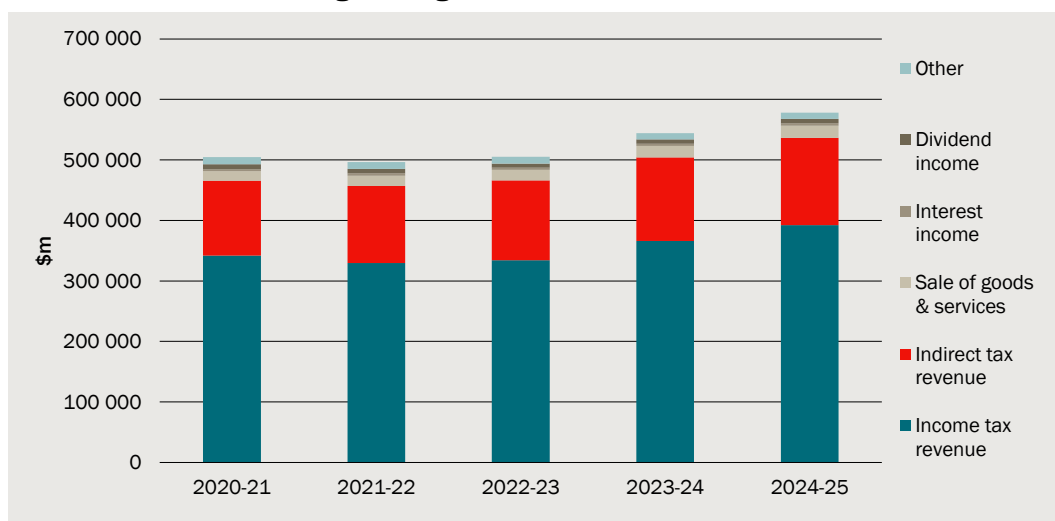
Note: Net debt figures prior to 1970 should be treated with caution as official net debt was not recorded.

Data sources: Pre-1970 net debt figures sourced from Owen, A 2016, 'Australian Federal Government deficits, debt and the stock market', <https://www.documentcloud.org/documents/1688260-centric-wealth-debts-and-deficit-table.html>; Nominal GDP 1960 to 2020: Australian Bureau of Statistics 2021, cat. No.5206.0 Australian National Accounts: National Income, Expenditure and Product: Table 1. Key National Accounts Aggregates (Gross domestic product: Current price, Seasonally adjusted) March, <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release>; Government net debt 1975 to 2007: Australian Government 2007, 'Mid-Year Economic and Fiscal Outlook 2007-08', Table F4: Australian Government general government sector net debt and net interest payments, p258, <https://archive.budget.gov.au/2007-08/myefo/MYEF0200708.pdf>; Government net debt 2008 to 2020: Australian Government 2020, 'Commonwealth Consolidated Financial Statements Balance Sheet dataset', <https://www.finance.gov.au/publications/commonwealth-consolidated-financial-statements>; Forecast GDP and net debt 2021 to 2025: Australian Government 2021, 'Budget 2021-22', Budget Paper No. 1, Table 3.9: Australian Government general government sector net financial worth, net debt and net interest payments, p. 93, <https://budget.gov.au/2021-22/content/bp1/index.htm>

Revenue

Australian Government general revenue is forecast to increase by a compound annual growth rate (CAGR) of 3 per cent over the forward estimates (chart 2).

2 Australian Government general government sector revenue



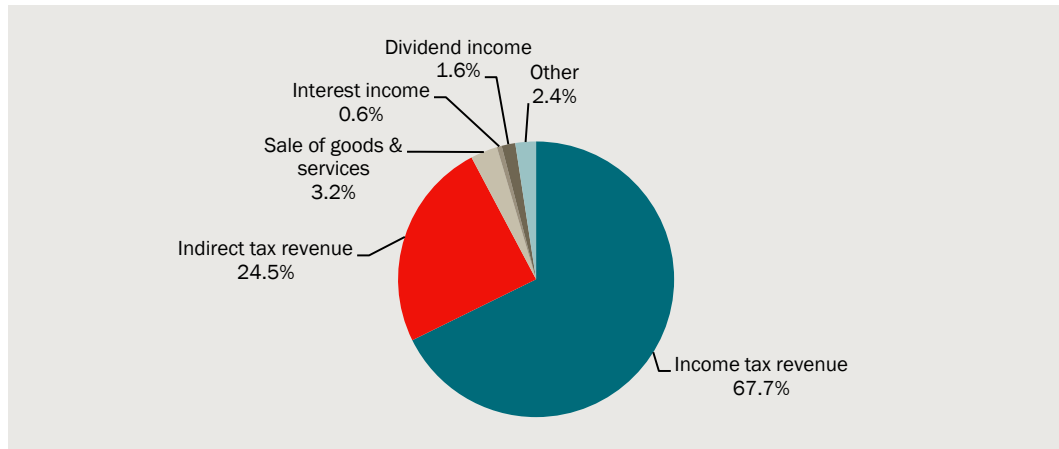
Data source: Australian Government 2021, 'Budget 2021-22 Budget Paper No. 1, Statement 10: Australian Government Budget Financial Statements', p 309, <https://budget.gov.au/2021-22/content/bp1/index.htm>

Key movements are:

- Income tax – 3 per cent CAGR increase
- Indirect tax – 4 per cent CAGR increase
- Sale of goods & services – 6 per cent CAGR increase
- Interest income - 9 per cent CAGR increase
- Dividend income - 3 per cent CAGR decrease, and
- Other - 5 per cent CAGR decrease.

Chart 3 shows income tax (67.7 per cent) is the largest component of 2020-21 Australian Government general revenue, followed by indirect tax (24.5 per cent).

3 Allocation of 2020-21 Australian Government general government sector revenue

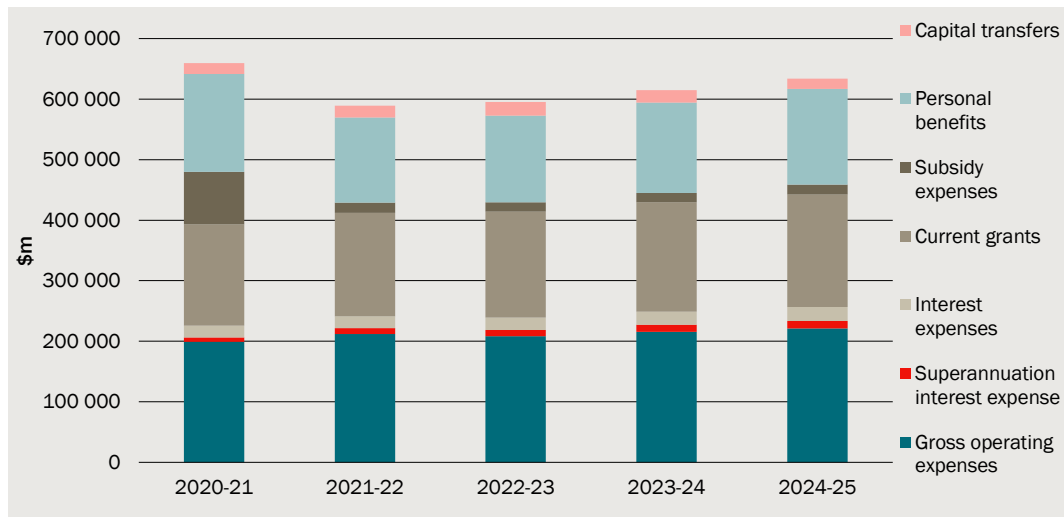


Data source: Australian Government 2021, 'Budget 2021-22 Budget Paper No. 1, Statement 10: Australian Government Budget Financial Statements', p 309, <https://budget.gov.au/2021-22/content/bp1/index.htm>; CIE.

Expenditure

Australian Government general expenditure is forecast to decline by a CAGR of 1 per cent over the forward estimates (chart 4).

4 Australian Government general government sector expenses



Data source: Australian Government 2021, 'Budget 2021-22 Budget Paper No. 1, Statement 10: Australian Government Budget Financial Statements', p 309, <https://budget.gov.au/2021-22/content/bp1/index.htm>

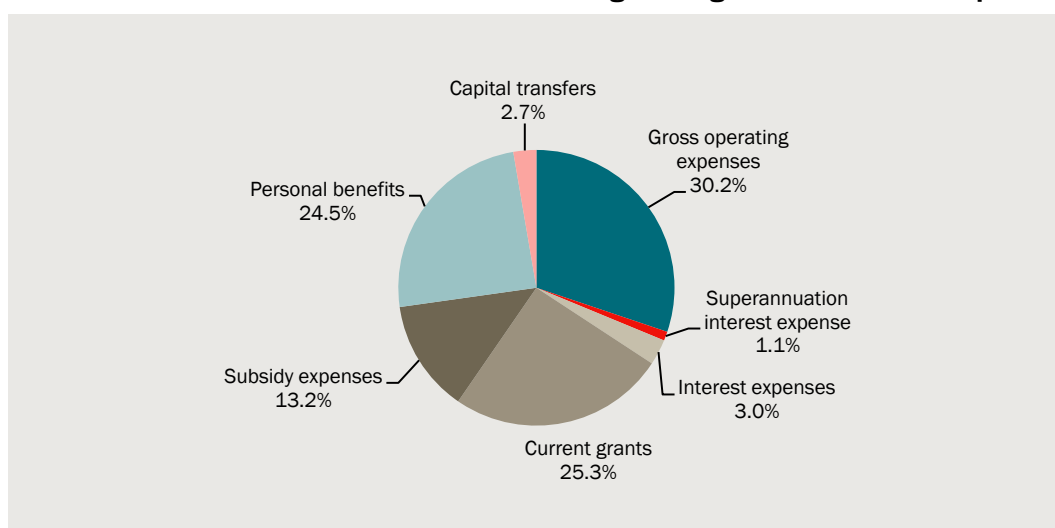
Key movements are:

- Gross operating expenses – 3 per cent CAGR increase
- Superannuation interest expense – 15 per cent CAGR increase
- Interest expenses – 4 per cent CAGR increase
- Current grants - 3 per cent CAGR increase
- Subsidy expenses - 34 per cent CAGR decrease
- Personal benefits - 1 per cent CAGR decrease

- Associated with a CAGR 17 per cent decrease in the assistance to the unemployed (\$31.2 billion in 2020-21 and 14.5 billion in 2024-25)
- Capital transfers - 2 per cent CAGR decrease.

Chart 5 shows gross operating expenses (30.2 per cent) is the largest component of 2020-21 Australian Government general expenses, followed by current grants (25.3 per cent) and personal benefits (24.5 per cent).

5 Allocation of 2020-21 Australian Government general government sector expenses



Data source: Australian Government 2021, 'Budget 2021-22 Budget Paper No. 1, Statement 10: Australian Government Budget Financial Statements', p 309, <https://budget.gov.au/2021-22/content/bp1/index.htm>; CIE.

Headline Policy decisions taken since the 2020-21 MYEFO

6 Headline Policy decisions taken since the 2020-21 MYEFO

Budget measure	2020-21	2021-22	2022-23	2023-24	2024-25	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Temporary full expensing extension ^a	-	-	600.0	10 900.0	6 400.0	17 900.0
Aged Care ^b	263.6	2 006.4	4 026.9	5 193.0	5 354.9	16 844.8
Unemployment support (incl. Job Seeker)	697.4	2 666.7	2 257.9	2 172.2	2 169.9	9 964.1
Infrastructure (State and Local Government funding)	-	687.5	2 944.5	2 159.3	2 163.8	7 955.1
Retaining the low- and middle-income tax offset			7 400.0	400.0		7 800.0
Temporary loss carry-back extension ^c				3 200.0	410.0	3 610.0

Budget measure	2020-21	2021-22	2022-23	2023-24	2024-25	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Boosting Apprenticeships Commencement wage subsidy	139.7	1 506.7	1 033.2	1.1	-2.0	2 680.7
National Mental Health and Suicide Prevention Plan,	..	413.3	547.2	484.8	565.6	2 010.9
COVID-19 vaccine purchases and rollout ^d						1 900.0
Women's Economic Security Package ^e	-20.7	18.1	531.8	645.1	653.5	1 827.8
Tourism and aviation subsidies ^d						1 800.0
Guaranteeing Universal Access to Preschool ^f	-16.0	156.4	472.2	486.7	523.3	1 622.6
Natural disaster resilience	0.1	299.3	350.5	329.5	262.1	1 241.5
Digital Economy Strategy	-1.2	472.6	417.0	93.6	47.8	1 029.8
Women's safety (victims of Family, Domestic and Sexual Violence)	-	348.8	382.8	135.9	130.5	998.0
Pharmaceutical Benefits Scheme new and amended Listings ^d						878.7
COVID-19 quarantine services & National Incident Centre/Medical stockpile	438.4	406.9	-	-	-	845.3
Housing Package	-	622.5	156.1	2.3	0.5	781.4
COVID 19 (pathology testing, temp. telehealth & respiratory clinics)	229.8	509.5	-	-	-	739.3
Agriculture 2030 ^g	-3.7	200.7	232.9	137.4	125.2	696.2
JobTrainer Fund	-	306.3	200.0	-	-	506.3
Total	1 731.1	10 621.7	21 553.0	26 340.9	18 807.1	83 632.5

^a Business full asset cost asset depreciation; ^b Government response to the Royal Commission (governance and regional access, home care, quality and safety, services and sustainability and workforce); ^c Companies to carry back (utilise) tax losses from the 2022-23 income year to offset previously taxed profits as far back as the 2018-19 income year; ^d annual Budget amounts not disclosed due to commercial sensitivities; ^e Child care subsidies, co-funding scholarships for women in STEM, grant funding available through the Women's Leadership and Development Program, establish an Early Stage Social Enterprise Foundation for Indigenous Women, additional round of the National Careers Institute Partnership Grants program, extend the family law small claims property pilot and Legal Aid Commission family law property mediation trial and Career Revive program; ^f Continued universal access to at least 15 hours of preschool each week (600 hours per year) for children in the year before they start school. Contingent on the states and territories agreeing to a robust reform timeline focused on increasing participation and school readiness; ^g Frontline biosecurity resources and people, modernise our biosecurity ICT systems, technology and data analytics, strengthening our biosecurity partnerships, support the National Soils Strategy, improve the handling of organic waste, encourage stewardship and biodiversity on

agricultural land, support trade and production in agricultural markets, improve employment opportunities and increase the uptake of innovative agricultural practices and digital technologies.

Source: Australian Government 2021, 'Budget 2021-22 Budget Paper No. 2, Budget Measures', https://budget.gov.au/2021-22/content/bp2/download/bp2_2021-22.pdf

Key assumptions

COVID-19 outbreaks

During 2021, localised outbreaks of COVID 19 are assumed to occur but are effectively contained.⁴

Vaccine rollout

The first phase of Australia's vaccination program, our COVID 19 Vaccine and Treatment Strategy, commenced in late February 2021 with most priority populations having been vaccinated. It is assumed that a population wide vaccination program is likely to be in place by the end of 2021.⁵

Border restrictions

No extended or sustained state border restrictions in place over the forecast period.⁶

Net overseas migration

A gradual return of temporary and permanent migrants is assumed to occur from mid-2022. Small phased programs for international students will commence in late 2021 and gradually increase from 2022. The rate of international arrivals will continue to be constrained by state and territory quarantine caps over 2021 and the first half of 2022, except for passengers from Safe Travel Zones.⁷

Net overseas migration (NOM) is forecast:⁸

- to fall from 194 000 persons in 2019-20
- to 97 000 persons by the end of 2020-21
- to 77 000 in 2021-22, and

4 Australian Government 2021, 'Budget 2021-22 Statement 2: Economic Outlook', p 36, <https://budget.gov.au/2021-22/content/bp1/index.htm>

5 Australian Government 2021, 'Budget 2021-22 Statement 2: Economic Outlook', p 36, <https://budget.gov.au/2021-22/content/bp1/index.htm>

6 Australian Government 2021, 'Budget 2021-22 Statement 2: Economic Outlook', p 36, <https://budget.gov.au/2021-22/content/bp1/index.htm>

7 Australian Government 2021, 'Budget 2021-22 Statement 2: Economic Outlook', p 36, <https://budget.gov.au/2021-22/content/bp1/index.htm>

8 Australian Government 2021, 'Budget 2021-22 Statement 2: Economic Outlook', p 45, <https://budget.gov.au/2021-22/content/bp1/index.htm>

- gradually increase to 235 000 persons in 2024-25.

Domestic macroeconomic forecasts

7 Domestic macroeconomic forecasts

Economic Parameter	Outcome		Forecasts	
	2019-20	2020-2021	2021-22	2022-2023
	Per cent	Per cent	Per cent	Per cent
Real GDP ^a	-0.2	1.25	4.25	2.5
Employment	-4.2	6.5	1	1
Unemployment rate	6.9	5.5	5	4.75
Consumer Price Index	-0.3	3	1.75	2.25
Wage Price Index	1.8	1.25	1.5	2.25
Nominal GDP	1.7	3.75	3.5	2
Terms of trade ^a		0.1	0.2	0.8
Current account balance (per cent of GDP)	0.9	10	-8	-10.5

^a Year-on-year change

Source: Australian Government 2021, 'Budget 2021-22 Statement 2: Economic Outlook', p 36, <https://budget.gov.au/2021-22/content/bp1/index.htm>

Exchange rate⁹

- Exchange rate is assumed to remain around its recent average level:
 - a trade-weighted index of around 64, and
 - a \$US exchange rate of around 77 US cents.

Commodity prices¹⁰

- World oil prices (Malaysian Tapis) are assumed to remain around US\$65 per barrel
- Iron ore spot price assumed to decline to US\$55/tonne free on board (FOB) by the end of the March quarter 2022
- Metallurgical coal spot price assumed to remain at US\$112/tonne FOB, and
- Thermal coal spot price assumed to remain at US\$93/tonne FOB.

⁹ Australian Government 2021, 'Budget 2021-22 Statement 2: Economic Outlook', p 37, <https://budget.gov.au/2021-22/content/bp1/index.htm>

¹⁰ Australian Government 2021, 'Budget 2021-22 Statement 2: Economic Outlook', p 37, <https://budget.gov.au/2021-22/content/bp1/index.htm>



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