PART 1: OVERVIEW

The Government is delivering on its plan for economic growth and jobs, with the budget maintaining an improving trajectory consistent with the Government's fiscal strategy. The budget is projected to return to surplus in 2020-21, the same year as at the 2016 Pre-election Economic and Fiscal Outlook (PEFO).

The net impact of decisions taken since the 2016 PEFO is an improvement to the underlying cash balance of $2.5 billion over the forward estimates. The Government has also made significant headway in legislating measures to repair the budget, with over $22 billion of budget repair measures implemented since the election.

The Australian economy continues to transition from the investment phase to the production phase of the mining boom. Economic growth is expected to increase over the forecast period, as the drag from the decline in mining investment dissipates and the economy transitions to broader-based growth, supported by historically low interest rates and a lower Australian dollar.

The Government is delivering on its 2016 election commitments, with new investments designed to support innovation and growth in Australia's cities and regions. These investments build on the Government's economic plan, while further decisions taken to improve the integrity of welfare and taxation systems will assist in maintaining the budget position.

UPDATED FISCAL OUTLOOK

The underlying cash deficit is expected to narrow from $36.5 billion (2.1 per cent of GDP) in 2016-17 to $10.0 billion (0.5 per cent of GDP) in 2019-20. The average annual pace of fiscal consolidation is 0.5 per cent of GDP over the forward estimates period.

Table 1.1: Budget aggregates

	Estimates					
	2016-17			2017-18		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
Underlying cash balance($b)(a)	**-37.1**	**-37.1**	**-36.5**	**-26.1**	**-26.1**	**-28.7**
Per cent of GDP	-2.2	-2.2	-2.1	-1.4	-1.4	-1.6
Fiscal balance($b)	**-37.1**	**-37.1**	**-41.5**	**-18.7**	**-18.7**	**-22.3**
Per cent of GDP	-2.2	-2.2	-2.4	-1.0	-1.0	-1.2
	Projections					
	2018-19			2019-20		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
Underlying cash balance($b)(a)	**-15.4**	**-15.4**	**-19.7**	**-6.0**	**-5.9**	**-10.0**
Per cent of GDP	-0.8	-0.8	-1.0	-0.3	-0.3	-0.5
Fiscal balance($b)	**-9.8**	**-9.8**	**-15.3**	**-2.1**	**-2.1**	**-6.4**
Per cent of GDP	-0.5	-0.5	-0.8	-0.1	-0.1	-0.3

(a) Excludes expected net Future Fund earnings.

Net debt is projected to peak at 19.0 per cent of GDP in 2018-19 and then decline over the medium term.

The combined impact from both policy decisions and variations means nominal payments are lower in each year of the forward estimates and total payments are forecast to reduce by $18.5 billion across the forward estimates compared to the 2016 PEFO.

Government payments as a share of GDP have declined since the 2016 PEFO from 25.8 per cent of GDP to 25.2 per cent of GDP in 2016-17 and remain at that level over the forward estimates. Average real growth in payments over the forward estimates is expected to be 1.9 per cent.

Government receipts, although growing, are expected to be affected by softer domestic prices and wages growth. Expected tax receipts, excluding new policy, have been revised down by around $3.7 billion in 2016-17 and $30.7 billion over the four years to 2019-20 since the 2016 PEFO.

Recent higher iron ore and coal prices are expected to improve corporate profitability in the mining sector in 2016-17, which is expected to provide some support to tax collections in 2017-18. However, this will be more than offset by the impact of weaker growth in aggregate wages and non-mining profits across the forward estimates.

UPDATED ECONOMIC OUTLOOK

Real GDP is forecast to grow by 2 per cent in 2016-17, partly reflecting the decline in GDP in the September quarter 2016. Economic growth is expected to pick up to 2¾ per cent in 2017-18 as the detraction from mining investment eases. Exports and household consumption are expected to support growth, with dwelling investment higher in the near term. Non-mining business investment is expected to increase modestly over coming years.

Table 1.2: Major economic parameters[(a)]

	Outcomes	Forecasts		Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
Real GDP	2.7	2	2 3/4	3	3
Employment	1.9	1 1/4	1 1/2	1 1/2	1 1/2
Unemployment rate	5.7	5 1/2	5 1/2	5 1/4	5 1/4
Consumer price index	1.0	1 3/4	2	2 1/2	2 1/2
Wage price index	2.1	2 1/4	2 1/2	3 1/4	3 1/2
Nominal GDP	2.3	5 3/4	3 3/4	4 1/4	4 1/2

(a) Year average unless otherwise stated. From 2015-16 to 2017-18, employment and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through the year growth to the June quarter.

Source: ABS Cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury projections.

The outlook for nominal GDP growth is being affected by several competing forces. Inflation and wages growth are expected to be slower than forecast at PEFO, constraining nominal growth — see Part 2. However, the prices of some of Australia's major commodity exports have risen considerably, which is expected to improve nominal growth in the near term. On balance, it is expected that nominal GDP growth will be stronger than PEFO in 2016-17 but below PEFO in 2017-18 as commodity prices decline from recent levels.

Commodity prices remain a key uncertainty to the outlook for the terms of trade and nominal GDP. After reaching multi-year lows over 2015-16, bulk commodity prices have recently strengthened compared to the assumptions used in the 2016 PEFO. Metallurgical coal prices have increased sharply compared with PEFO, thermal coal prices are significantly higher and iron ore prices have also increased. After broad and deep industry and market consultation, Treasury judged it prudent to suspend the practice of using a recent average of commodity prices to underpin the forecasts for some commodities. An alternative assumption of a phased reduction in prices from recent levels has been adopted in this MYEFO for metallurgical coal and iron ore prices — see Part 2.

Growth in employment will be sustained by continued economic growth and subdued wage growth. The unemployment rate is expected to be relatively stable over the forecast period.

Expectations for global growth have moderated a little since the 2016 PEFO, with weaker than expected outcomes in advanced and emerging economies. While the outlook for global growth remains uncertain, there are some very preliminary signs that are encouraging. The global economy is expected to continue its recovery over coming years.

DELIVERING ON THE GOVERNMENT'S ECONOMIC PLAN

The Government is delivering on its plan for economic growth and jobs, with further investments in infrastructure and regional development building on measures to improve productivity, innovation and competitiveness announced in the 2015-16 MYEFO and 2016-17 Budget.

Subdued income and wage growth highlight the importance of policies that encourage economic growth.

Budget repair remains a key element of the Government's economic plan. New spending has been more than offset over the forward estimates, with the budget maintaining an improving trajectory consistent with the Government's fiscal strategy.

Progress on budget repair measures

Since its re-election in July 2016, the Government has made significant progress in working with the Parliament to legislate measures that contribute to the task of repairing the budget. The total impact over the forward estimates of budget repair measures implemented since the 2016 PEFO, including through appropriations and regulations, exceeds $22 billion.

The passage of the Omnibus Savings Package secured $6.3 billion in savings over the forward estimates (to 2019-20), growing to around $25.4 billion over the medium-term (to 2026-27). The majority of the measures in that legislation were spending reductions, including a number of welfare and education spending changes announced in previous updates.

Passage of legislation to increase tobacco excise also achieved a further $4.7 billion in improvements to the budget over the forward estimates.

The Government also secured passage of the most comprehensive suite of superannuation reforms in a decade, better targeting tax concessions to make the superannuation system fairer and more sustainable while also improving the underlying cash balance by almost $3 billion over the forward estimates.

There is more work to be done. The revised estimate for the value of the remaining unlegislated budget repair measures announced prior to the 2016-17 MYEFO over the forward estimates on an underlying cash basis, taking account of parameter changes since the original announcement are now a positive impact of $13.2 billion. This comprises around $0.7 billion of receipt increases and around $12.5 billion of payments saves. The Government is committed to working with the Parliament to continue to legislate the savings measures included in the budget bottom line.

Decisions taken since PEFO

The 2016-17 MYEFO includes the budget impacts of implementing the Government's 2016 election commitments, as well as decisions taken since the 2016 PEFO. These decisions continue to build on the Government's economic plan by supporting productivity and growth in Australia's cities and regions.

In keeping with the Government's budget repair strategy, decisions taken since the 2016 PEFO, including the Government's election commitments, improve the budget by $2.5 billion over the forward estimates.

The Government is continuing its record $50 billion investment in Australia's land transport infrastructure and is providing $813 million from 2016-17 to 2019-20 for new projects across Australia under the Infrastructure Investment Programme. Major commitments in the Infrastructure Investment Programme include $215 million for works on the Pacific Motorway in Queensland and $60 million for the Outback Way.

The Government will provide $141 million over four years for new and amended listings on the Pharmaceutical Benefits Scheme and the Repatriation Pharmaceutical Benefits Scheme, as well as $7.1 million over four years for new and amended items on the Medicare Benefits Schedule and Veterans' Benefits.

The Government remains committed to boosting jobs, investment and growth in regional Australia. The Regional Jobs and Investment package will support regional communities to diversify their economies, stimulate long-term growth and deliver sustainable employment. Similarly, the Building Better Regions Fund will support infrastructure investment and employment generating projects in regional communities.

The Government will deliver on its significant commitments to strengthen and grow Australia's agriculture sector including support for dairy farmers, improving biosecurity and promoting Australian beef. The Government will also provide $398 million over three years to 2019-20 to secure funding for Commonwealth water functions, consistent with our commitment to deliver the Basin Plan on time and in full. These build on the investments made through the Agriculture White Paper and Northern Australia White Paper.

These commitments build on measures announced in the 2016-17 Budget, including the *ten year enterprise tax plan*, support for young vulnerable people to find a pathway to work and additional funding to secure an advanced local defence manufacturing industry.

The Government also continues to support the productivity of Australian business, including through the National Innovation and Science Agenda, as well as export trade agreements and competition reforms that will drive economic growth and standards of living.

Maintaining the budget position

The Government has taken decisions to improve the integrity of welfare spending and taxation arrangements, which will assist in maintaining the budget position into the medium term.

Consistent with its election commitments, the Government will strengthen the integrity of Australia's social welfare system by ensuring only people in genuine need receive support. Enhanced employment and non-employment income data matching, ensuring accurate disclosure of assets and investments, improved engagement with welfare recipients to better ensure they meet their obligations and improved identification and recovery of debts will improve the Budget by $2.1 billion over the forward estimates.

The Government is also enhancing the integrity of the tax system by allowing the Australian Taxation Office (ATO) to disclose to credit reporting bureaus the tax debt information of businesses who have not effectively engaged with the ATO to manage these debts. Businesses that do not pay their tax gain an unfair financial and competitive advantage over those that do.

The Government will also provide $1.6 million to establish a Black Economy Taskforce to develop an innovative, whole-of-government policy response to this problem. Black economy activities disadvantage honest taxpayers, undermine the integrity of our tax and welfare systems and reduce the amount of revenue collected by governments.

The Government has also taken decisions which will strengthen the balance sheet by reducing gross debt and public debt interest payments.

The Government will not proceed with the Asset Recycling Fund (ARF) as announced in the 2014-15 Budget and will continue to progress the closure of the Building Australia Fund (BAF) and Education Investment Fund (EIF). The ARF was intended to contain initial contributions from uncommitted funds in the BAF and EIF and proceeds from the sale of Medibank Private. Given that the ARF is not required to deliver on infrastructure commitments made under the Asset Recycling Initiative, the Government has taken the decision to no longer proceed with its establishment. This decision is projected to reduce gross debt by more than $10 billion by 2019-20.

From 1 January 2017, the Government will introduce a new vocational education and training (VET) income contingent loans scheme, the VET Student Loans program, to replace the old VET FEE-HELP scheme. Under the old scheme, VET FEE-HELP loans increased from $26 million in 2009 to over $2.9 billion in 2015.

The new VET Student Loans program will ensure that vocational education and training loans are student focused and appropriately targeted to industry needs by introducing tougher barriers to entry for providers, introducing loan caps on courses and having stronger course eligibility criteria. This will constrain the unsustainable growth in loans experienced under the VET FEE-HELP loan scheme. The program will reduce the total outstanding HELP debt by an estimated $7 billion over the forward estimates and $25 billion over ten years.

The budget remains projected to return to surplus in 2020-21, the same year as at the 2016 PEFO.