Statement 3: Fiscal Strategy and Outlook

The Government's decisive action in providing unprecedented economic support in response to the COVID-19 pandemic has been central to Australia's economic recovery.

The Government's support was temporary, targeted, proportionate and delivered using existing mechanisms. It cushioned Australian households and businesses from the worst of the crisis, and limited the economic cost and longer-term labour scarring.

The Government's support was vital in driving the speed with which the economy has recovered, exceeding even the most optimistic of expectations. The strength in the domestic economic recovery has flowed through to higher tax receipts and lower unemployment payments and a stronger fiscal position.

While remarkable progress has been made in our domestic economic recovery, the virus presents an ongoing threat to the global and domestic economy. As a result, Australia remains in the first phase of the Government's Economic and Fiscal Strategy. The first phase of the Strategy focuses on driving down the unemployment rate back to where it was prior to the pandemic or lower and ensuring the economic recovery is sustained and secured.

Consistent with the first phase of the Strategy, the Government is using a large share of the gains from automatic stabilisers to invest in a stronger economy. The Government's economic plan is focussed on achieving strong and sustainable private sector-led growth, prioritising job creation as a pathway to a stronger economy and stronger fiscal position.

Decisions taken in this Budget will help get Australians through the COVID-19 pandemic, secure the economic recovery and set the nation up for the future. Securing our economic recovery also ensures we can guarantee the essential services that Australians rely on, support our community's most vulnerable, and enhance Australia's resilience and national security.

The underlying cash balance is now expected to be a deficit of $161.0 billion in 2020-21, a $52.7 billion improvement compared with $213.7 billion at the 2020-21 Budget, predominantly as a result of better than expected tax receipts. The underlying cash balance is expected to be a deficit of $106.6 billion in 2021-22 and continue to improve over the forward estimates to a deficit of $57.0 billion in 2024-25, nearly half of the deficit in 2021-22. The underlying cash balance is projected to further improve over the medium term to a deficit of 1.3 per cent of GDP in 2031-32.

A strong economy will enable the Government to stabilise debt as a share of the economy over time. Net debt is expected to peak at 40.9 per cent of GDP at 30 June 2025, a lower peak than forecast in the 2020-21 Budget, and fall to 37.0 per cent of GDP by the end of the medium term.

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Overview

The Government acted decisively in response to the COVID-19 pandemic in providing an unprecedented level of fiscal support to protect vulnerable households and save Australian businesses and jobs. The Government was well placed to provide this response, as it entered the pandemic with a strong economy and from a position of fiscal strength, made possible by years of responsible budget management.

The public health and economic responses were successful in mitigating the significant impacts at the height of the pandemic and avoiding labour scarring, by protecting as many jobs as possible. The Government's economic support was underpinned by a clear set of principles: that it be temporary, targeted, proportionate and delivered using existing mechanisms where possible. These principles ensured that support was delivered when needed and set the economy on a path to recovery from the pandemic.

Significant economic support announced as part of the emergency response in 2020 is still flowing to households and businesses. This, together with further targeted support in this Budget and the ongoing rollout of the vaccine, underpins a positive outlook for the Australian economy.

The strength in the domestic economic recovery is reflected in a stronger fiscal position, predominantly due to higher-than-expected tax receipts as well as lower-than-expected unemployment benefits.

The stronger fiscal position has enabled the Government to continue to invest in the next stage of its economic plan to grow the economy, reduce unemployment and secure the recovery, while guaranteeing the essential services that Australians rely on. This is consistent with the Government's Economic and Fiscal Strategy which recognises that sustainable private sector-led growth with low unemployment is key to stabilising and ultimately reducing debt as a share of the economy in the medium term.

The underlying cash balance in 2020-21 is expected to be a deficit of $161.0 billion (7.8 per cent of GDP), an improvement of $52.7 billion since the 2020-21 Budget. The underlying cash balance is expected to improve to a deficit of $106.6 billion in 2021-22 (5.0 per cent of GDP) and continue to improve over the forward estimates to $57.0 billion (2.4 per cent of GDP) in 2024-25. Over the medium term, the underlying cash balance is projected to improve to a deficit of 1.3 per cent of GDP in 2031-32.

Net debt is expected to be 34.2 per cent of GDP at 30 June 2022 and peak at 40.9 per cent of GDP at 30 June 2025. This compares to a previous peak in net debt of 43.8 per cent of GDP estimated in the 2020-21 Budget. Net debt is projected to fall over the medium term to 37.0 per cent of GDP at 30 June 2032.

Gross debt is projected to be lower as a share of GDP in each year of the forward estimates and medium term compared with the 2020-21 Budget. Gross debt is expected to be 45.1 per cent of GDP at 30 June 2022, increasing to 50 per cent of GDP at 30 June 2025. Gross debt is projected to stabilise over the medium term at around 51 per cent of GDP. This compares to the 2020-21 Budget where gross debt was projected to stabilise at around 55 per cent of GDP in the medium term.

Table 3.1: Australian Government general government sector budget aggregates

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b	$b
Underlying cash balance(a)	**-85.3**	**-161.0**	**-106.6**	**-99.3**	**-79.5**	**-57.0**
Per cent of GDP	-4.3	-7.8	-5.0	-4.6	-3.5	-2.4
Net operating balance	**-92.3**	**-154.5**	**-92.7**	**-90.2**	**-70.2**	**-55.7**
Per cent of GDP	-4.7	-7.5	-4.3	-4.1	-3.1	-2.3
Net debt(b)	**491.2**	**617.5**	**729.0**	**835.0**	**920.4**	**980.6**
Per cent of GDP	24.7	30.0	34.2	38.4	40.4	40.9
Gross debt(c)	**684.3**	**829.0**	**963.0**	**1,058.0**	**1,134.0**	**1,199.0**
Per cent of GDP	34.5	40.2	45.1	48.6	49.7	50.0

(a) Excludes net Future Fund earnings before 2020-21.
(b) Net debt is the sum of interest-bearing liabilities (which include Australian Government Securities (AGS) on issue measured at market value) minus the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).
(c) Gross debt measures the face value of AGS on issue.

Economic and Fiscal Strategy

The Government revised its Economic and Fiscal Strategy in the 2020-21 Budget. Core to the Strategy is a focus on supporting strong and sustainable private sector-led growth and job creation, recognising this is the pathway to a strong and sustainable fiscal position.

The Strategy operates in two phases. The first phase of the Strategy seeks to promote employment, growth, business and consumer confidence through discretionary fiscal policy and the operation of automatic stabilisers. The priority of this phase is to ensure a strong and sustained recovery to drive down the unemployment rate.

Consistent with the Strategy, since the onset of the COVID-19 pandemic, the Government has provided unprecedented support to households and businesses. This was underpinned by a clear set of principles: that it be temporary, targeted and proportionate to the shock and delivered using existing mechanisms where possible. The support was intended to limit the economic cost and longer-term labour scarring from the crisis by protecting as many jobs as possible.

As a result of the substantial economic support provided to the economy, the success in managing the health crisis, and the resilience and flexibility shown by Australian businesses and households, the Australian economy has recovered strongly from its first recession in almost 30 years.

The transition to sustainable private sector-led growth, away from emergency government support programs such as the JobKeeper Payment, will lay the foundations for a stronger economy and a sustainable fiscal position over the medium term. In this Budget, the Government is maintaining a focus on growth-friendly economic policies to prioritise job creation as a pathway for a stronger economy and stronger fiscal position.

The Government is also providing targeted and temporary support for regions and sectors that continue to be disproportionately affected by COVID-19, recognising that the economic recovery is not necessarily progressing evenly.

While the economic forecasts suggest that an unemployment rate of 4¾ per cent will be achieved by the June quarter 2023, a high degree of uncertainty remains. The virus continues to present an ongoing threat to the health and economic recovery, both domestically and globally, and the longer-term effects of the pandemic on people and the economy are unclear. For this reason, Australia will continue to remain in the first phase of the Economic and Fiscal Strategy until the recovery is secured.

Before a transition to the second phase of the Strategy, the Government's ambition is for sustainable private sector-led growth to drive unemployment down to pre pandemic levels or lower. With further support from monetary policy limited, fiscal policy will need to continue to play an active role in driving the unemployment rate lower.

Only once the economic recovery is secured will the Government transition towards the medium-term objective of stabilising and then reducing debt as a share of GDP. Stronger economic growth, coupled with low costs of servicing debt, will enable the Government to maintain a steady and declining ratio of debt to GDP over time while running a modest deficit.

When the Government's focus transitions to rebuilding fiscal buffers, it will act consistently with its core values by:

- controlling expenditure growth, while maintaining the efficiency and quality of government spending and guaranteeing the delivery of essential services
- supporting revenue growth through policies that drive economic growth, while maintaining a tax-to-GDP ratio at or below 23.9 per cent
- using the Government's balance sheet to support productivity-enhancing investments
- pursuing ongoing structural reforms to boost economic growth.

The Government's Economic and Fiscal Strategy is consistent with the requirements of the *Charter of Budget Honesty Act 1998* and is set out in Box 3.1.

Box 3.1: The Government's Economic and Fiscal Strategy

The Government's Economic and Fiscal Strategy will drive sustainable, private sector-led growth and job creation and ensure Australia is well-placed to respond to future shocks.

By supporting economic growth now and over the medium term, the Strategy will underpin stronger public finances over time, guaranteed provision of essential services and lower taxes as a share of the economy.

COVID-19 Economic Recovery Plan

The Government's Economic Recovery Plan aims to promote employment, growth and business and consumer confidence through:

- allowing the budget's automatic stabilisers to operate, to support aggregate demand
- temporary, proportionate and targeted fiscal support, including through tax measures that incentivise private sector investment to drive productivity and create jobs
- structural reforms to improve the ease of doing business and increase the economy's long-term growth potential to create the jobs of the future
- continuing to improve the efficiency and quality of government spending.

Progress on the economic recovery will be reviewed at each Budget update. This phase of the Strategy will remain in place until the economic recovery is secure and the unemployment rate is back to pre-crisis levels or lower, at which time the Strategy will be governed by the Government's medium-term fiscal objectives.

Medium term fiscal strategy

Over the medium term, the fiscal strategy will be focused on growing the economy in order to stabilise and reduce debt. This underlines the commitment to budget and balance sheet discipline and provides flexibility to respond to changing economic conditions.

The strategy is underpinned by the following elements:

- stabilising and then reducing gross and net debt as a share of the economy
- targeting a budget balance, on average, over the course of the economic cycle that is consistent with the debt objective. This will be achieved by:
  - controlling expenditure growth, while maintaining the efficiency and quality of government spending and guaranteeing the delivery of essential services
  - supporting revenue growth through policies that drive earnings and economic growth, while maintaining a sustainable tax burden consistent with a tax-to-GDP ratio at or below 23.9 per cent of GDP
  - using the Government's balance sheet to support productivity-enhancing investments that build a stronger economy, support private investment and create jobs
  - ongoing structural reforms to boost economic growth.

Fiscal outlook — forward estimates

An underlying cash deficit of $106.6 billion (5.0 per cent of GDP) is forecast in 2021-22, improving to an estimated deficit of $57.0 billion (2.4 per cent of GDP) in 2024-25 (Table 3.2).

Table 3.2: Australian Government general government sector budget aggregates

	Actual	Estimates					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**469.4**	**499.8**	**482.1**	**494.0**	**532.9**	**572.0**	**2,080.9**
Per cent of GDP	23.6	24.3	22.6	22.7	23.4	23.9	
Payments(b)	**549.6**	**660.8**	**588.7**	**593.3**	**612.4**	**628.9**	**2,423.2**
Per cent of GDP	27.7	32.1	27.6	27.3	26.9	26.2	
Net Future Fund earnings(c)	5.0	na	na	na	na	na	na
Underlying cash balance(d)	**-85.3**	**-161.0**	**-106.6**	**-99.3**	**-79.5**	**-57.0**	**-342.4**
Per cent of GDP	-4.3	-7.8	-5.0	-4.6	-3.5	-2.4	
Revenue	**486.3**	**504.9**	**496.6**	**505.1**	**544.5**	**578.0**	**2,124.2**
Per cent of GDP	24.5	24.5	23.3	23.2	23.9	24.1	
Expenses	**578.5**	**659.4**	**589.3**	**595.4**	**614.7**	**633.7**	**2,433.1**
Per cent of GDP	29.2	32.0	27.6	27.4	27.0	26.4	
Net operating balance	**-92.3**	**-154.5**	**-92.7**	**-90.2**	**-70.2**	**-55.7**	**-308.9**
Per cent of GDP	-4.7	-7.5	-4.3	-4.1	-3.1	-2.3	
Net capital investment	4.0	8.6	10.3	10.9	10.1	9.2	40.6
Fiscal balance	**-96.3**	**-163.2**	**-103.0**	**-101.2**	**-80.3**	**-64.9**	**-349.4**
Per cent of GDP	-4.9	-7.9	-4.8	-4.6	-3.5	-2.7	
Memorandum:							
Net Future Fund earnings(c)	5.0	5.5	3.0	3.2	3.4	3.6	13.2
Headline cash balance	-93.9	-168.2	-117.0	-109.4	-75.4	-65.1	-367.0

(a) Total is equal to the sum of amounts from 2021-22 to 2024-25.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net cash flows from financing activities for leases.
(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability from 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(d) Excludes net Future Fund earnings before 2020-21.

Receipts are expected to fall to $482.1 billion (22.6 per cent of GDP) in 2021-22, then increase across each year of the forward estimates to $572.0 billion (23.9 per cent of GDP) in 2024-25.

Payments are expected to fall to $588.7 billion (27.6 per cent of GDP) in 2021-22, and then increase across the forward estimates to $628.9 billion (26.2 per cent of GDP) in 2024-25.

A headline cash deficit of $117.0 billion is expected in 2021-22, improving to an estimated deficit of $65.1 billion in 2024-25.

In accrual terms, a net operating deficit of $92.7 billion (4.3 per cent of GDP) is expected in 2021-22, improving to an estimated deficit of $55.7 billion (2.3 per cent of GDP) in 2024-25.

Underlying cash balance estimates

Table 3.3 provides a summary of the cash flows of the Australian Government general government sector.

Table 3.3: Summary of Australian Government general government sector cash flow

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	499.6	481.8	493.8	532.6	571.8
Capital cash receipts(a)	0.2	0.3	0.2	0.2	0.2
Total cash receipts	499.8	482.1	494.0	532.9	572.0
Cash payments					
Operating cash payments	642.3	567.5	570.9	588.9	605.4
Capital cash payments(b)	16.1	18.8	19.9	21.0	21.1
Total cash payments	658.4	586.3	590.8	609.9	626.5
GFS cash surplus(+)/deficit(-)	**-158.5**	**-104.2**	**-96.8**	**-77.0**	**-54.5**
Per cent of GDP	-7.7	-4.9	-4.4	-3.4	-2.3
plus Net cash flows from financing activities for leases(c)	-2.4	-2.4	-2.4	-2.5	-2.5
Underlying cash balance	**-161.0**	**-106.6**	**-99.3**	**-79.5**	**-57.0**
Per cent of GDP	-7.8	-5.0	-4.6	-3.5	-2.4
Memorandum:					
Net cash flows from investments in financial assets for policy purposes	-7.3	-10.4	-10.1	4.1	-8.2
Headline cash balance	**-168.2**	**-117.0**	**-109.4**	**-75.4**	**-65.1**

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.
(b) Equivalent to cash payments for purchases of non-financial assets in the cash flow statement.
(c) Principal payments on lease liabilities, which are financing cash payments, are deducted in the calculation of the underlying cash balance to maintain consistency of measure following the implementation of AASB 16.

Table 3.4 provides a reconciliation of changes in the underlying cash balance between the 2020-21 Budget and 2021-22 Budget.

Table 3.5 provides a reconciliation of the changes in the underlying cash balance between the 2020-21 Budget, the 2020-21 MYEFO and 2021-22 Budget, disaggregated by policy decisions and parameter and other variations on receipts and payments estimates.

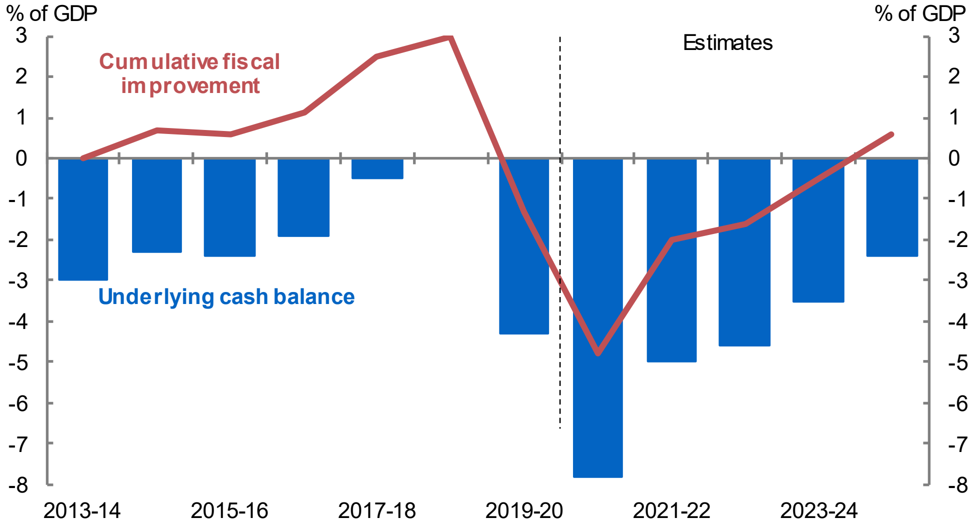
Table 3.4: Changes to the underlying cash balance between the 2020-21 Budget and 2021-22 Budget

	Estimates				
	2020-21	2021-22	2022-23	2023-24	Total
	$m	$m	$m	$m	$m
Effect of policy decisions(a)					
Receipts	-67	-416	-8,006	-14,999	-23,487
Payments	8,150	21,030	18,914	16,145	64,239
Total policy decisions impact on underlying cash balance	-8,217	-21,445	-26,920	-31,144	-87,727
Effect of parameter and other variations(a)					
Receipts	36,134	30,551	19,359	21,490	107,535
Payments	-24,785	3,722	3,822	2,934	-14,307
Total parameter and other variations impact on underlying cash balance	60,919	26,829	15,537	18,556	121,841
Total change in underlying cash balance	**52,702**	**5,383**	**-11,383**	**-12,587**	**34,115**

(a) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

In aggregate, parameter variations over the four years to 2023-24 are expected to improve the underlying cash balance by $121.8 billion since the 2020-21 Budget (Table 3.4). Since the 2020-21 MYEFO, parameter variations over the five years to 2024-25 are expected to improve the underlying cash balance by $104.3 billion (Table 3.5). The operation of automatic stabilisers has resulted in higher-than-expected tax receipts and lower-than-expected unemployment benefits due to the strength in the economy. This is expected to drive a positive cumulative fiscal improvement since the COVID-19 pandemic by the end of the forward estimates (Chart 3.1).

Chart 3.1: Cumulative fiscal improvement from 2013-14 to 2024-25



Note: Excludes net Future Fund earnings before 2020-21.
Source: Treasury projections

The improvements from securing the economic recovery have enabled the Government to invest in the next stage of its economic plan to grow the economy and guarantee the essential services that Australians rely on.

Since the 2020-21 Budget, policy decisions over the four years to 2023-24 are expected to reduce the underlying cash balance by $87.7 billion (Table 3.4). Since the 2020-21 MYEFO, policy decisions over the five years to 2024-25 are expected to reduce the underlying cash balance by $95.9 billion (Table 3.5). This reflects spending to secure the economic recovery and lower the unemployment rate consistent with the Economic and Fiscal Strategy while also guaranteeing high quality sustainable services, in areas such as aged care and mental health.

Table 3.5: Reconciliation of underlying cash balance estimates

	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	Total
	$m	$m	$m	$m	$m	$m
2020-21 Budget underlying cash balance(a)	**-213,654**	**-112,003**	**-87,883**	**-66,926**	**-57,456**	**-537,922**
Per cent of GDP	-11.0	-5.6	-4.2	-3.0	-2.5	
Changes from 2020-21 Budget to 2020-21 MYEFO						
Effect of policy decisions(b)	-4,884	-3,236	-2,162	-1,813	*	*
Effect of parameter and other variations	20,791	6,778	5,659	2,765	*	*
Total variations(c)	**15,907**	**3,542**	**3,497**	**952**	**2,298**	**26,197**
2020-21 MYEFO underlying cash balance(d)	**-197,747**	**-108,461**	**-84,386**	**-65,974**	**-55,158**	**-511,725**
Per cent of GDP	-9.9	-5.3	-4.0	-3.0	-2.4	
Changes from 2020-21 MYEFO to 2021-22 Budget						
Effect of policy decisions(b)(e)						
Receipts	*38*	*14*	*-7,357*	*-14,392*	*-5,890*	*-27,587*
Payments	*3,372*	*18,224*	*17,401*	*14,939*	*14,351*	*68,287*
Total policy decisions impact on underlying cash balance	-3,334	-18,210	-24,758	-29,331	-20,241	-95,874
Effect of parameter and other variations(e)						
Receipts	*26,660*	*23,541*	*14,300*	*20,972*	*24,615*	*110,089*
Payments	*-13,468*	*3,490*	*4,422*	*5,181*	*6,182*	*5,808*
Total parameter and other variations impact on underlying cash balance	40,129	20,051	9,878	15,791	18,433	104,281
2021-22 Budget underlying cash balance	**-160,952**	**-106,619**	**-99,266**	**-79,514**	**-56,966**	**-503,318**
Per cent of GDP	-7.8	-5.0	-4.6	-3.5	-2.4	

*Data is not available.

(a) 2024-25 underlying cash balance as published in the medium-term projections, pages 3-28 of Budget Paper No. 1: Budget Strategy and Outlook 2020-21.

(b) Excludes secondary impacts on public debt interest of policy decisions, offsets from the Contingency Reserve for decisions taken.

(c) 2024-25 shows the total variation between medium term projections of the underlying cash balance published in the 2020-21 Budget and 2020-21 MYEFO.

(d) 2024-25 underlying cash balance as published in the medium-term projections, page 55 of the 2020-21 MYEFO.

(e) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

Receipts estimates

Total receipts are expected to be $30.1 billion higher in 2021-22 than estimated at the 2020-21 Budget, with tax receipts $31.8 billion higher and non-tax receipts $1.7 billion lower.

Policy decisions

Policy decisions since the 2020-21 Budget are expected to reduce total receipts by $67 million in 2020-21, $416 million in 2021-22 and $23.5 billion over the four years to 2023-24. Since the 2020-21 MYEFO, policy decisions are expected to reduce total receipts by $27.6 billion over the five years to 2024-25.

Policy decisions since the 2020-21 Budget are expected to reduce tax receipts by $4 million in 2020-21 and $22.6 billion over the four years to 2023-24.

Significant measures since the 2020-21 MYEFO include:

- Extending temporary full expensing for 12 months until 30 June 2023. This will allow eligible businesses with aggregated annual turnover or total income of less than $5 billion to deduct the full cost of eligible depreciable assets of any value, acquired from 7:30pm AEDT on 6 October 2020 and first used or installed ready for use by 30 June 2023. This measure is estimated to decrease receipts by $17.9 billion over the four years to 2024-25
- Extending temporary loss carry-back to allow eligible companies to carry back tax losses from the 2022-23 income year. Companies with aggregated annual turnover of less than $5 billion will be able to carry back tax losses incurred during the 2019-20, 2020-21, 2021-22 and now the 2022-23 income years to offset tax paid in 2018-19 or later years. This measure is estimated to decrease receipts by $2.8 billion over the four years to 2024-25
- Retaining the low and middle income tax offset (LMITO) for the 2021-22 income year. This measure is estimated to decrease receipts by $7.8 billion over the four years to 2024-25.

Further details of Government policy decisions are provided in *Budget Paper No. 2, Budget Measures 2021-22*.

Parameter and other variations

Parameter and other variations since the 2020-21 Budget are expected to increase total receipts by $36.1 billion in 2020-21, $30.6 billion in 2021-22 and $107.5 billion over the four years to 2023-24.

Since the 2020-21 Budget, parameter and other variations are expected to increase tax receipts by $34.8 billion in 2020-21 and $107.1 billion over the four years to 2023-24.

The upward tax receipts revisions are driven by a number of factors. Elevated iron ore prices have supported company tax receipts. The rapid rebound in the labour market is supporting higher personal income tax receipts. Upward revisions to GST receipts reflect underlying strength in activity statements in the current year and upgrades to the outlook for consumption. Over the latter half of the forward estimates period, improvement in the outlook for the labour market is expected to drive higher prices and wages growth supporting tax receipts.

Further information on expected tax receipts is provided in *Statement 5: Revenue*. Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 8: Forecasting Performance and Scenario Analysis*.

Payments estimates

Since the 2020-21 Budget, total nominal payments estimates have decreased by $16.6 billion in 2020-21 due to improving economic conditions following the COVID-19 pandemic, but increased by $49.9 billion over the four years to 2023-24. Since the 2020-21 MYEFO, total nominal payments are estimated to increase by $74.1 billion over the five years to 2024-25. This reflects the Government's continued support in response to the COVID-19 pandemic and further funding for important government services and payments to improve the lives of Australians.

Policy decisions

Between the 2020-21 Budget and the 2021-22 Budget, policy decisions increased cash payments by $8.2 billion in 2020-21 and increased total cash payments by $64.2 billion over the four years to 2023-24. Since the 2020-21 MYEFO, policy decisions have increased total cash payments by $3.4 billion in 2020-21 and by $53.9 billion over the four years to 2023-24.

Major increases in payments as a result of policy decisions since the 2020-21 MYEFO include:

- increased funding in response to the recommendations of the Royal Commission into Aged Care Quality and Safety (the Royal Commission) to improve safety and quality and the availability of aged care services, which is expected to increase payments by $17.7 billion over five years from 2020-21
- an increase to working age payments, including the JobSeeker Payment, while strengthening mutual obligation requirements and maximising job seekers' ability to find and retain employment, which is expected to increase payments by $9.5 billion over the five years from 2020-21

- expanding the Boosting Apprenticeships Commencements wage subsidy to further support business and Group Training Organisations to take on new apprentices and trainees, which is expected to increase payments by $2.7 billion over four years from 2020-21
- continuing support for the aviation, tourism, arts and international education sectors, as part of the Government's response to the COVID-19 pandemic, supporting the transition to recovery and stimulating tourism, which is expected to increase payments by $2.1 billion over four years from 2020-21
- improving access to mental health prevention and support services, as well as suicide prevention initiatives, including initiatives to be progressed with states and territories for a new national agreement on mental health and suicide prevention, which is expected to increase payments by $2.0 billion over four years from 2021-22
- further funding to purchase COVID-19 vaccines and for the distribution and administration of these to residents of Australia, which is expected to increase payments by $1.9 billion over five years from 2020-21
- improving women's choices and economic security, including assistance to families with children in child care by reducing out-of-pocket costs, which is expected to increase payments by $1.8 billion over five years from 2020-21. The measure will remove the Child Care Subsidy (CCS) annual cap and increase the CCS rate for the second child and subsequent children aged five years and under
- an ongoing Commonwealth funding contribution to preschool, which is expected to increase payments by $1.6 billion over four years from 2021-22. The first four years of funding, covering the 2022 to 2025 preschool years, will be delivered through a new four year funding agreement to be negotiated with the states and territories
- initiatives to reduce and support the victims of Family, Domestic and Sexual Violence against women and children, which is expected to increase payments by $998.1 million over four years from 2021-22. This measure forms the Government's transitional strategy ahead of the development of the new National Plan to replace the National Plan to Reduce Violence against Women and their Children (2010-2022).

Parameter and other variations

Between the 2020-21 Budget and the 2021-22 Budget, parameter and other variations decreased total cash payments by $24.8 billion in 2020-21 and decreased total cash payments by $14.3 billion over the four years to 2023-24. Since the 2020-21 MYEFO, parameter and other variations have decreased cash payments by $13.5 billion in 2020-21 and decreased total cash payments by $374.5 million over the four years to 2023-24.

Major increases in cash payments as a result of parameter and other variations since the 2020-21 MYEFO include:

- payments relating to the provision of GST to the States and Territories, which are expected to increase by $6.6 billion in 2020-21 ($21.1 billion over the four years to 2023-24), consistent with an increase in GST receipts
- payments relating to the National Disability Insurance Scheme, which are expected to increase by $1.2 billion in 2020-21 ($13.2 billion over the four years to 2023-24), largely reflecting increased participant numbers and higher than expected average participant costs
- payments related to the Military Rehabilitation Compensation Acts — Income Support and Compensation program, which are expected to increase by $3.3 million in 2020-21 ($2.5 billion over the four years to 2023-24), largely reflecting an increase in the number of claims made by members of the Australian Defence Force and veterans
- payments under the General Revenue Assistance program, which are expected to increase by $76.6 million in 2020-21 ($2.3 billion over the four years to 2023-24), largely reflecting changes to transitional GST top-up payments, Horizontal Fiscal Equalisation transition payments and increased royalty payments resulting from higher sale price and volume for liquefied natural gas and condensate
- payments relating to the Financial Support for People with Disability program, which are expected to decrease by $54.0 million in 2020-21 (increasing by $1.6 billion over the four years to 2023-24), largely reflecting changes to estimated recipient numbers
- payments related to the National Partnership for Housing, which are expected to increase by $227.4 million in 2020-21 ($959.4 million over the three years to 2022-23), largely reflecting a higher than expected number of applications for the HomeBuilder program
- payments relating to the Pharmaceutical Benefits Scheme, which are expected to increase by $95.4 million in 2020-21 ($852.5 million over the four years to 2023-24), largely reflecting higher than expected price and volume forecasts for subsidised medicines.

Major decreases in cash payments as a result of parameter and other variations since the 2020-21 MYEFO include:

- payments relating to the Job Seeker Income Support program, which are expected to decrease by $4.9 billion in 2020-21 ($5.4 billion over the four years to 2023-24), largely reflecting lower than expected recipients and average payment rates

- payments relating to the Economic Response to the Coronavirus program, which are expected to decrease by $1.5 billion in 2020-21 ($4.9 billion over the three years to 2022-23), largely reflecting lower than expected uptake of the JobMaker Hiring Credit and improving labour market conditions

- payments relating to the Infrastructure Investment Program, which are expected to decrease by $188.7 million in 2020-21 ($3.3 billion over the four years to 2023-24), largely reflecting a re-profile of program funding to align with the delivery of project milestones. As part of the 2021-22 Budget measures titled *Infrastructure Investment* and *Road Safety Program – extension*, the Government will provide additional payments for priority road and rail projects to support short term economic stimulus

- payments relating to the Aged Care Services program, which are broadly in line in 2020-21 (decreasing by $2.3 billion over the four years to 2023-24), largely reflecting lower than expected occupancy for residential aged care in line with consumer demand. Between 2020-21 and 2023-24, the Government is providing $12.2 billion as part of the response to the recommendations of the Royal Commission into Aged Care Quality and Safety, including $9.6 billion in payments for the Aged Care Services program

- payments relating to the Support for Seniors program, which are expected to decrease by $531.3 million in 2020-21 ($1.3 billion over the four years to 2023-24), largely reflecting lower than expected average payment rates caused by increases to recipients' average income and assets levels as the economy improves

- payments relating to the Workplace Support Program, which are expected to decrease by $314.0 million in 2020-21 ($744.6 million over the four years to 2023-24), largely reflecting the effect of improving economic conditions on payments made under the Fair Entitlement Guarantee scheme.

Consistent with previous budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Details of this draw down are provided in *Statement 6: Expenses and Net Capital Investment*.

A significant proportion of Government spending is adjusted at each update to align with changes in economic parameters (including prices and wages, unemployment and foreign exchange rates). As a result, improving economic conditions have caused an increase in spending in some programs and has also led to a reduction in the number of beneficiaries for income support payments, which decreases payments.

Analysis of the sensitivity of the payments estimates to change in the economic outlook is provided in *Statement 8: Forecasting Performance and Scenario Analysis*.

Net operating balance estimates

The net operating balance is an accrual measure, reflecting revenue minus expenses. It excludes the impact of the Commonwealth's net new capital expenditure and helps to distinguish between the Government's capital and recurrent spending.

The net operating balance is expected to be a deficit of $92.7 billion (4.3 per cent of GDP) in 2021-22, compared to an expected deficit of $103.4 billion (5.1 per cent of GDP) in the 2020-21 Budget. Table 3.6 provides a reconciliation of the variations in the net operating balance since the 2020-21 Budget.

Table 3.6: Reconciliation of net operating balance estimates

	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	Total(a)
	$m	$m	$m	$m	$m	$m
2020-21 Budget net operating balance	**-197,888**	**-103,420**	**-83,507**	**-58,519**	*	*
Per cent of GDP	-10.2	-5.1	-4.0	-2.7		
Changes from 2020-21 Budget to 2020-21 MYEFO						
Effect of policy decisions(b)	-5,474	-3,150	-2,029	-1,662	*	*
Effect of parameter and other variations	18,178	8,406	4,585	3,042	*	*
Total variations	**12,704**	**5,255**	**2,556**	**1,380**	*	*
2020-21 MYEFO net operating balance	**-185,185**	**-98,164**	**-80,950**	**-57,139**	*	*
Per cent of GDP	-9.2	-4.8	-3.8	-2.6		
Changes from 2020-21 MYEFO to 2021-22 Budget						
Effect of policy decisions(b)(c)						
Revenue	*38*	*353*	*-7,352*	*-14,406*	*-6,240*	*-27,645*
Expenses	*3,748*	*18,354*	*17,470*	*14,858*	*13,940*	*64,622*
Total policy decisions impact on net operating balance	-3,710	-18,001	-24,822	-29,264	-20,180	-92,266
Effect of parameter and other variations(c)						
Revenue	*22,714*	*23,717*	*17,631*	*20,366*	*	*
Expenses	*-11,632*	*265*	*2,092*	*4,142*	*	*
Total parameter and other variations impact on net operating balance	34,345	23,452	15,539	16,224	*	*
2021-22 Budget net operating balance	**-154,549**	**-92,713**	**-90,233**	**-70,178**	**-55,736**	**-308,860**
Per cent of GDP	-7.5	-4.3	-4.1	-3.1	-2.3	
Net capital investment						
Effect of net capital investment(d)	8,620	10,330	10,939	10,135	9,161	40,565
2021-22 Budget fiscal balance	**-163,169**	**-103,043**	**-101,171**	**-80,313**	**-64,897**	**-349,424**
Per cent of GDP	-7.9	-4.8	-4.6	-3.5	-2.7	

*Data is not available.
(a) Total is equal to the sum of amounts from 2021-22.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(c) A positive number for revenue improves the net operating balance, while a positive number for expenses worsens the net operating balance.
(d) A positive number for net capital investment worsens the fiscal balance.

Changes in accrual revenue are generally driven by the same factors as cash receipts, though differences arise where revenue raised in a given year is not received in that year.

Movements in expenses over the forward estimates are broadly similar to the movements in cash payments. The key exceptions include:

- superannuation benefits, where there is a timing difference with the expense accruing during employment and cash payments occurring during retirement
- purchases of non-financial assets, which are included in cash payments but not in accrual expenses. The expense estimates include depreciation of non-financial assets rather than recognising the impact at the time of purchase.

Detailed information on expenses can be found in *Statement 6: Expenses and Net Capital Investment*.

Headline cash balance estimates

The headline cash balance consists of the underlying cash balance and net cash flows from investments in financial assets for policy purposes (for example, student loans and equity investment in the NBN). Table 3.7 provides further detail of differences between the underlying and headline cash balance estimates of the Australian Government general government sector.

The headline cash balance for 2021-22 is estimated to be a deficit of $117.0 billion, compared with a deficit of $123.8 billion estimated at the 2020-21 Budget. This is primarily driven by the improvement in the underlying cash balance.

Table 3.7: Reconciliation of general government underlying and headline cash balance estimates

	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	Total(a)
	$m	$m	$m	$m	$m	$m
2021-22 Budget underlying cash balance	**-160,952**	**-106,619**	**-99,266**	**-79,514**	**-56,966**	**-342,366**
***plus* Net cash flows from investments in financial assets for policy purposes**						
Student loans	-3,524	-3,260	-3,271	-3,100	-2,758	-12,389
NBN loan(b)	5,550	0	0	13,908	0	13,908
Trade support loans	-75	-70	-55	-50	-46	-221
CEFC loans and investments	-517	-378	-493	-351	-329	-1,551
Northern Australia Infrastructure Facility	-229	-881	-1,324	-1,077	-674	-3,956
Australian Business Securitisation Fund	-235	-500	-250	-500	-501	-1,751
Structured Finance Support Fund	-1,186	-1,002	-6	-7	-7	-1,022
Drought and rural assistance loans	-2,714	-396	-207	35	42	-525
Official Development Assistance - Multilateral Replenishment	-78	-127	-128	-132	-139	-526
National Housing Finance and Investment Corporation	-91	-10	-15	-7	-42	-74
COVID-19 Support for Indonesia — loan	-1,450	100	100	100	100	400
Financial Assistance to Papua New Guinea — loan	-539	37	37	37	37	148
Net other(c)	-2,199	-3,941	-4,528	-4,759	-3,864	-17,092
Total net cash flows from investments in financial assets for policy purposes	**-7,286**	**-10,428**	**-10,140**	**4,096**	**-8,182**	**-24,654**
2021-22 Budget headline cash balance	**-168,238**	**-117,047**	**-109,407**	**-75,417**	**-65,148**	**-367,019**

(a) Total is equal to the sum of amounts from 2021-22 to 2024-25.
(b) This financial profile represents the actual repayments for 2020-21. As the loan agreement between the Government and NBN Co allows some flexibility in relation to the timing of the repayment, the remaining amount is included in 2023-24.
(c) Net other includes amounts that have been itemised for commercial-in-confidence reasons.

Recurrent and capital spending

Table 3.8 outlines estimates of the Government's recurrent and capital spending from 2020-21 to 2024-25.

Table 3.8: The Government's recurrent and capital spending[(a)]

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b
Recurrent spending					
Operating payments	466.5	378.1	375.1	390.6	405.8
Recurrent grants	96.4	99.8	100.3	101.9	103.0
Total recurrent spending	**563.0**	**477.9**	**475.4**	**492.5**	**508.8**
Per cent of total spending	91.3	89.4	88.5	88.9	89.9
Capital spending					
Direct capital investment(b)	18.5	21.2	22.3	23.5	23.5
Capital grants	14.8	17.1	19.7	17.1	13.3
Financial asset investments	20.6	18.3	19.8	20.8	20.4
Total capital spending	**53.8**	**56.5**	**61.8**	**61.4**	**57.3**
Per cent of total spending	8.7	10.6	11.5	11.1	10.1
Total spending	**616.8**	**534.4**	**537.2**	**553.9**	**566.0**

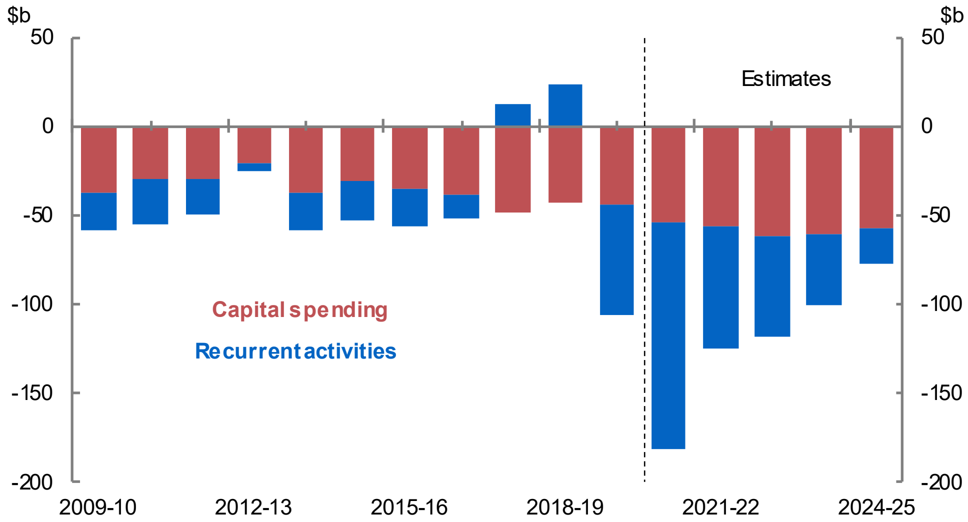
(a) General Revenue Assistance is excluded from this analysis.
(b) Non-financial asset purchases and net cash flows from financing activities for leases.
Note: Recurrent spending includes pension and income support payments, payments to government employees, payments for goods and services, subsidies, grants not made for capital purposes and specific purpose payments to states for recurrent purposes.

Impact of capital and recurrent spending on the borrowing requirement

Chart 3.2 sets out estimates of the Government's annual borrowing for capital spending and recurrent cash spending. It does this by analysing the net cash flows from recurrent activities (i.e. current revenue less recurrent spending) and the cash flows for capital investment.

Prior to the COVID-19 pandemic, net cash flows from recurrent activities at the 2019-20 MYEFO were expected to be in surplus across the forward estimates and fully fund recurrent activities with borrowing required for capital spending only. With the underlying cash balance in deficit across the forward estimates as a result of the COVID-19 pandemic, the Government now expects to borrow for both recurrent and capital spending.

Chart 3.2: Contributions of recurrent and capital spending to the Government's borrowing requirement



Note: Net capital spending includes spending for non-financial and financial assets, and capital grants to the states and other entities. From 2019-20 onwards, capital spending includes impacts from the implementation of AASB 16 *Leases*.

The Government's balance sheet

The balance sheet represents the assets and liabilities of the Australian Government. Whereas 'flow' measures such as the underlying cash balance or net operating balance focus on the government's financial position from year to year, balance sheet measures provide a greater focus on the medium and longer-term sustainability of government operations.

A strong, healthy balance sheet enables governments to respond flexibly to unexpected events and changing economic conditions. The strength of Australia's fiscal position, including historically low levels of debt, enabled the Government to take decisive action in response to the COVID-19 pandemic.

There are several key aggregates that measure the health of the Government's balance sheet — gross debt, net debt, net financial worth and net worth.

Gross debt estimates

Gross debt measures the face value of Australian Government Securities (AGS) on issue. This is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices. Gross debt is a key indicator of fiscal sustainability and, together with net debt, a key focus of the Government's medium-term fiscal strategy.

The face value of AGS on issue is expected to be 45.1 per cent of GDP ($963 billion) at 30 June 2022 and increase to 50.0 per cent of GDP ($1,199 billion) at 30 June 2025.

Box 3.2 Government borrowing costs remain at historical lows

The COVID-19 pandemic has resulted in noticeable movements in the yields on Australian Government debt. In line with global trends, the poor economic outlook and elevated uncertainty sparked investor demand for the relative safety of government bonds and drove interest rates to historic lows (Chart 3.3). However, as confidence in the global economic outlook has grown more recently, bond yields in Australia and globally have increased. The spread between Australia's long-term and short-term yields has increased relative to comparable economies, a sign of investor confidence in the strength of our recovery and the outlook for growth and inflation. Notwithstanding the recent increase, bond yields across all tenors are still lower than their average over the 2 years prior to 2019 when yields started to decline.

Chart 3.3: Yields on 5- and 10-year Australian Government Securities

Source: RBA.

While Government borrowing has increased sharply since the onset of the COVID-19 pandemic, the cost of servicing this debt remains modest owing to very low interest rates. In the period between 20 March 2020 and 3 May 2021, the Australian Office of Financial Management (AOFM) has issued $281.6 billion in Treasury Bonds, with a weighted average tenor of 9.4 years and a weighted average issuance yield of only 0.88 per cent. Based on current yields, an additional $1.6 trillion in debt would need to be issued in order for public debt interest as a share of GDP to reach the 1990's peak of 2 per cent and $251 billion to reach 1 per cent.

Box 3.2: Government borrowing costs remain at historical lows (continued)

The impact of the recent increase in yields on debt servicing costs has been tempered by the AOFM's decisions to extend the yield curve over the last decade. In 2010, the weighted average term to maturity was around 5 years and the longest maturity available was only 12 years. The weighted average term to maturity is now 7.6 years and the yield curve extends to June 2051. Extending the yield curve has had the benefit of reducing the refinancing risk of existing debt and increasing the range of issuance options available. This has served the AOFM well in managing the large issuance program arising from the COVID-19 pandemic.

Over the forward estimates, the yield curve is assumed to remain fixed at the level observed prior to each Budget update. This results in a weighted average yield for future bond issuance of around 1.6 per cent compared with 0.8 per cent at the 2020-21 Budget.

Further information on assumed market yields on AGS used at this update and the AOFM's issuance strategy during the pandemic is in *Statement 7: Debt Statement*.

Net debt estimates

Net debt is the sum of interest-bearing liabilities less the sum of selected financial assets. Net debt is a broader measure of fiscal sustainability than gross debt as it includes cash-like assets on the Government's balance sheet as well as the market value of AGS on issue. It provides an indicator of the Government's ability to meet its future debt obligations.

Net debt is estimated to be 34.2 per cent of GDP ($729.0 billion) at 30 June 2022 (as shown in Table 3.8), lower than the estimate of 40.4 per cent of GDP ($812.1 billion) at the 2020-21 Budget. The improvement in net debt since the 2020-21 Budget is driven by the Government's decreased borrowing requirements resulting from the improvement in the underlying cash balance and a decrease in the market value of AGS due to higher yields than were assumed at the time of the 2020-21 Budget. Net debt is estimated to increase to 40.9 per cent of GDP ($980.6 billion) at the end of the forward estimates.

Further information on gross debt and net debt is provided in *Statement 7: Debt Statement*.

Table 3.9: Australian Government general government sector net financial worth, net debt and net interest payments

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b
Financial assets	509.9	551.2	556.1	565.5	582.7
Non-financial assets	183.3	192.6	202.4	211.6	220.0
Total assets	**693.2**	**743.8**	**758.5**	**777.1**	**802.7**
Total liabilities	**1,279.7**	**1,421.8**	**1,525.9**	**1,613.9**	**1,694.1**
Net worth	**-586.5**	**-678.0**	**-767.4**	**-836.8**	**-891.4**
Net financial worth(a)	**-769.8**	**-870.6**	**-969.8**	**-1,048.4**	**-1,111.4**
Per cent of GDP	-37.4	-40.8	-44.6	-46.0	-46.4
Net debt(b)	**617.5**	**729.0**	**835.0**	**920.4**	**980.6**
Per cent of GDP	30.0	34.2	38.4	40.4	40.9
Net interest payments	**14.1**	**14.7**	**14.9**	**16.7**	**17.1**
Per cent of GDP	0.7	0.7	0.7	0.7	0.7

(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt is the sum of interest bearing liabilities minus the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

Net financial worth and net worth

Net financial worth is the sum of financial assets less liabilities. It includes all classes of financial assets and all liabilities, only some of which are included in net debt. Both the assets of the Future Fund and the public sector superannuation liability that the Future Fund seeks to finance are included in net financial worth.

Net financial worth is estimated to be -$870.6 billion (-40.8 per cent of GDP) at 30 June 2022, an improvement of $76.1 billion compared with the estimate of -$946.8 billion in the 2020-21 Budget.

A further measure of the Government's financial position is net worth. Net worth is the sum of all assets less all liabilities. It includes non-financial assets such as buildings and plant, equipment and infrastructure. Net worth is expected to be -$678.0 billion (-31.8 per cent of GDP) at 30 June 2022, an improvement of $76.6 billion compared with the estimate of -$754.6 billion in the 2020-21 Budget.

The improvement in net financial worth and net worth are primarily driven by the same drivers as the improvement in net debt.

Medium-term fiscal projections

The medium-term fiscal projections bring together projections of receipts, payments and the Government's assets and liabilities for the seven years beyond the forward estimates period.

They outline the trajectory for the fiscal position under current policy settings and prevailing economic assumptions, and provide the starting point to which future policy changes would be applied.

The medium-term fiscal projections generally follow a base-plus-growth methodology, whereby the forward estimates for receipts and payments form the 'base' to which future growth is applied. Economic parameters are used to estimate growth rates relevant to different components of receipts and payments. Key economic parameters include nominal GDP, consumption, prices and wages, unemployment, population growth and the structure of the population.

The economic parameters that underpin the medium-term fiscal projections are a product of assumptions and are therefore subject to considerable uncertainty. Small changes to underlying assumptions around the economy, or changes to future policy settings, can have large impacts on projections of fiscal aggregates over the medium term.

While the economic outlook has strengthened considerably, the COVID-19 pandemic is still evolving. A recovery or response which differs from those expected would impact the fiscal aggregates over the medium term. Further discussion of forecasting uncertainty and the sensitivity of current forecasts to changes in key underlying assumptions is contained in *Statement 8: Forecasting Performance and Sensitivity Analysis.*

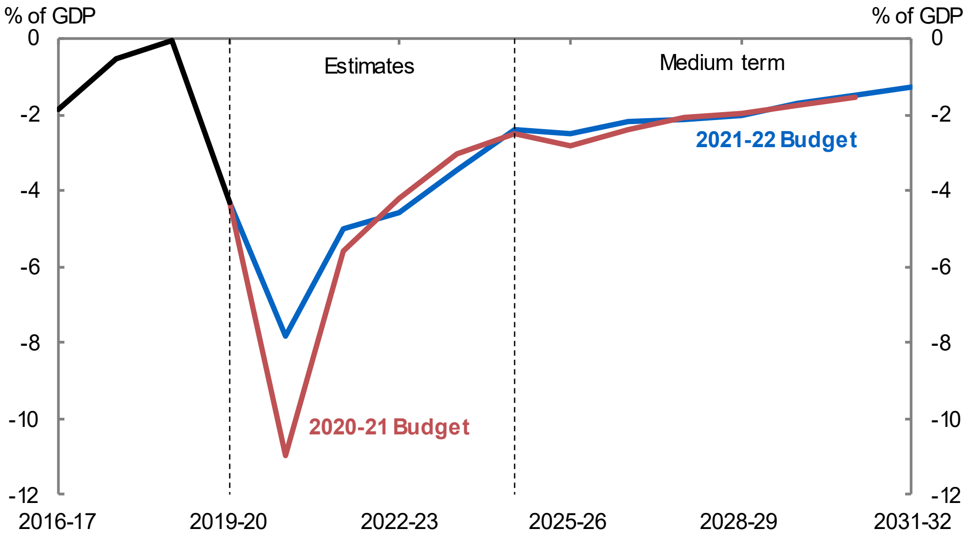
The methodology underpinning the medium-term economic projections is explained in *Statement 2: Economic Outlook*.

Underlying cash balance projections

The underlying cash balance is expected to improve from a deficit of 7.8 per cent of GDP in 2020-21 to a deficit of 1.3 per cent of GDP by 2031-32.

While there is improvement in the underlying cash balance due to stronger tax receipts on the back of the stronger economic outlook, the Government has also made investments to guarantee high quality essential services, in areas such as aged care and mental health. This means that, at the end of the forwards, the underlying cash balance is expected to be largely unchanged compared to the estimates at the 2020-21 Budget. The trajectory for the underlying cash balance across the medium term continues to be largely in line with projections at the 2020-21 Budget (Chart 3.4).

Chart 3.4: Underlying cash balance as a share of GDP



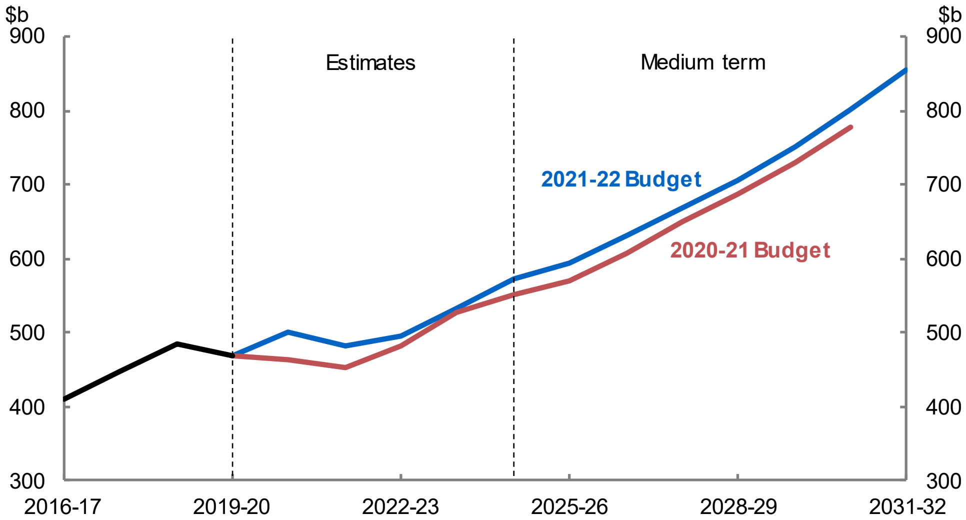
Source: Treasury projections.

Receipts and payments projections

Total receipts are projected to have increased since the 2020-21 Budget, mainly driven by higher projected tax collections. Tax receipts are highly responsive to economic developments. Projections for a quicker and stronger economic recovery than originally anticipated have therefore increased the level of tax receipts expected across the forward estimates and medium term. Further information on tax receipts can be found in *Statement 5: Revenue*.

Chart 3.5 shows the level of total receipts projected to 2031-32.

Chart 3.5: Total receipts



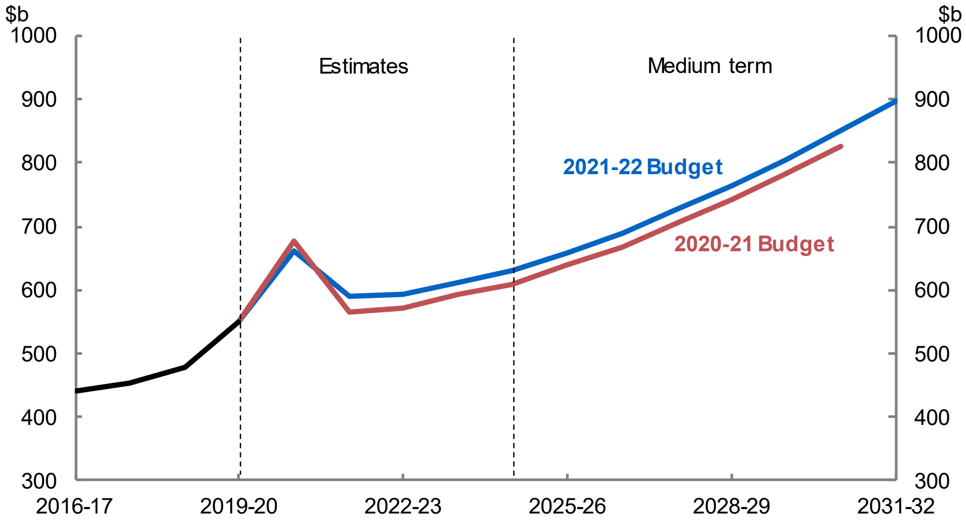
Note: Total receipts include taxation and non-taxation receipts.
Source: Treasury projections.

Payments are expected to fall from a peak of $660.8 billion in 2020-21, reflecting the temporary and targeted nature of COVID-19 emergency support payments such as the JobKeeper Payment.

Although payments fall from the peak, they are expected to be higher than estimated at the 2020-21 Budget from 2021-22 to the end of the medium term (see Chart 3.6). This reflects the Government's commitment to guaranteeing high quality and sustainable essential services. Key payment programs that are projected to increase across the medium term are aged care, the National Disability Insurance Scheme, and payments to individuals. Projections are also higher across a range of payment programs, reflecting higher indexation as a result of higher prices associated with the stronger than expected economy.

Further information on payments can be found in *Statement 6: Expenses and Net Capital Investment*.

Chart 3.6: Total payments



Source: Treasury projections.

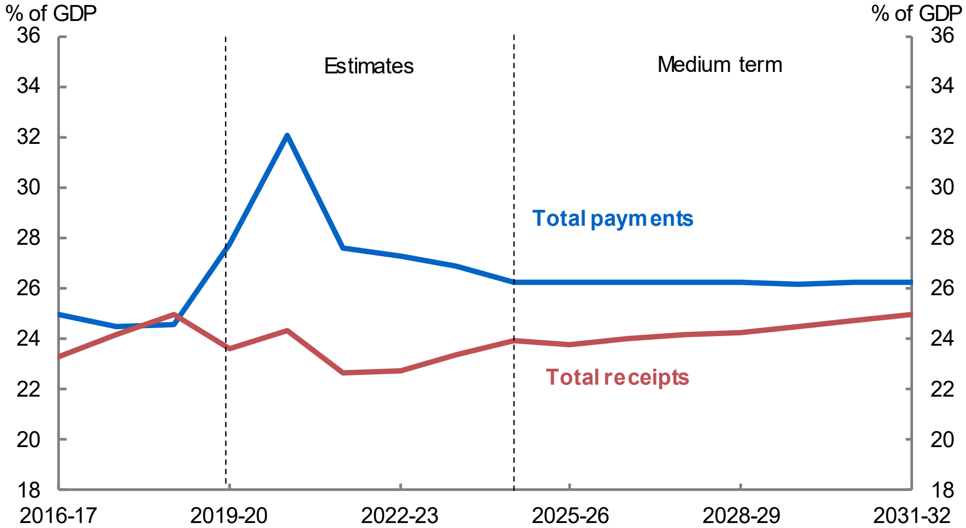
Payments as a share of GDP are projected to fall from a COVID-19 peak of 32.1 per cent of GDP in 2020-21 and remain flat across the medium term. This reflects the temporary and targeted nature of COVID-19 support. At the end of the medium term, payments are projected to be 26.2 per cent of GDP.

Receipts as a share of GDP are projected to increase from 2021-22 to the end of the medium term. Under Australia's progressive taxation system, higher wage levels result in a projected increase in tax receipts as a share of the economy across the medium term.

By the end of the medium term, the tax-to-GDP ratio is projected to reach 23.1 per cent of GDP. This is consistent with the Government's Economic and Fiscal Strategy which outlines the Government's commitment to maintaining a sustainable tax burden, with a tax-to-GDP ratio at or below 23.9 per cent of GDP.

Chart 3.7 shows total payments and total receipts as a share of GDP projected to 2031-32.

Chart 3.7: Total payments and receipts as a share of GDP



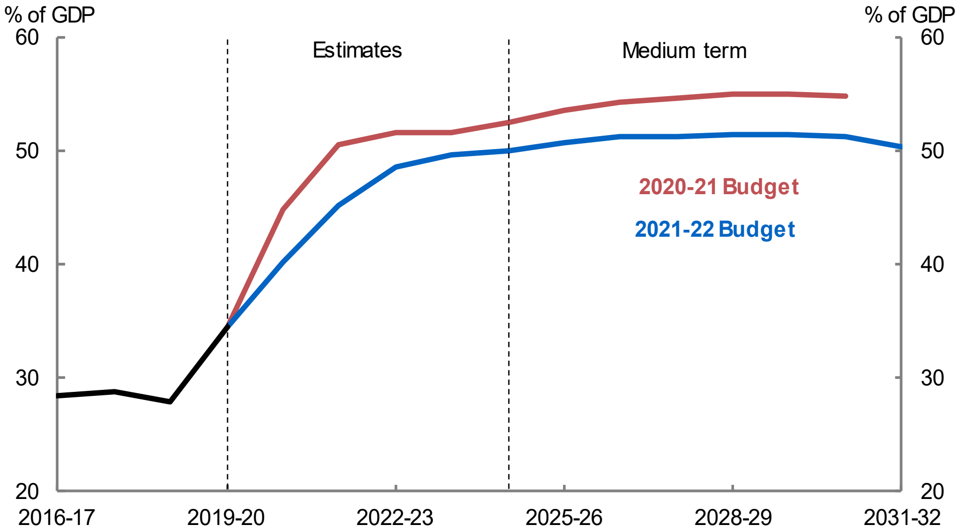
Note: Total receipts includes taxation and non-taxation receipts.
Source: Treasury projections.

Gross debt projections

Gross debt as a share of GDP is projected to be lower in each year of the forward estimates and medium term than projected at the 2020-21 Budget (Chart 3.8). Gross debt is projected to stabilise at around 51 per cent of GDP over the medium term, compared to around 55 per cent of GDP at the 2020-21 Budget.

Australia's debt position is fiscally sustainable given projections for strong economic growth to continue over the medium term. The economic growth rate is projected to exceed the interest rate on debt, with the result that debt as a share of GDP stabilises over time notwithstanding the projected underlying cash deficit. Further details on Government debt levels can be found in *Statement 7: Debt Statement*.

Chart 3.8: Gross debt as a share of GDP

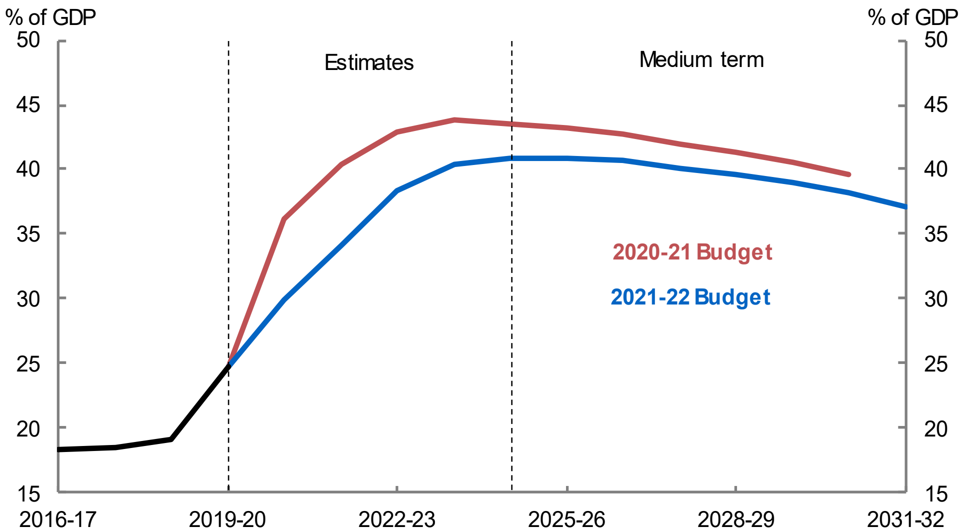


Source: Australian Office of Financial Management and Treasury projections.

Net debt projections

Net debt is estimated to peak at 40.9 per cent of GDP at 30 June 2025, before improving over the medium term to reach 37.0 per cent of GDP at 30 June 2032, as shown in Chart 3.9. Net debt, as a share of GDP, is projected to fall over the medium term more quickly than gross debt because net debt is based on the market value of AGS which falls as yields rise. Net debt as a share of GDP is projected to be lower in each year of the medium term compared to at the 2020-21 Budget.

Chart 3.9: Net debt as a share of GDP

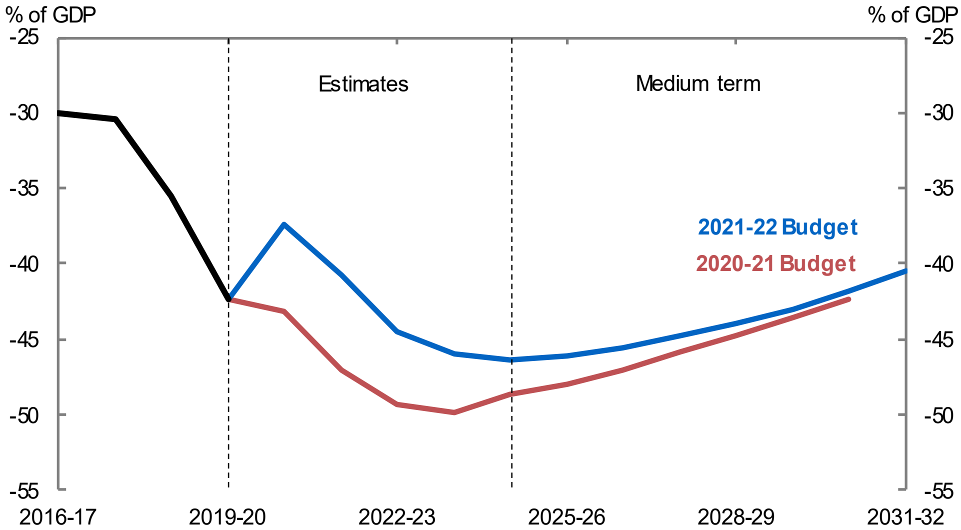


Source: Treasury projections.

Net financial worth projections

Net financial worth improves as a share of GDP over the medium term, reaching -46.4 per cent of GDP at 30 June 2025, before improving to -40.5 per cent of GDP at 30 June 2032 as shown in Chart 3.10.

Chart 3.10: Net financial worth as a share of GDP



Source: Treasury projections.

Structural budget balance estimates

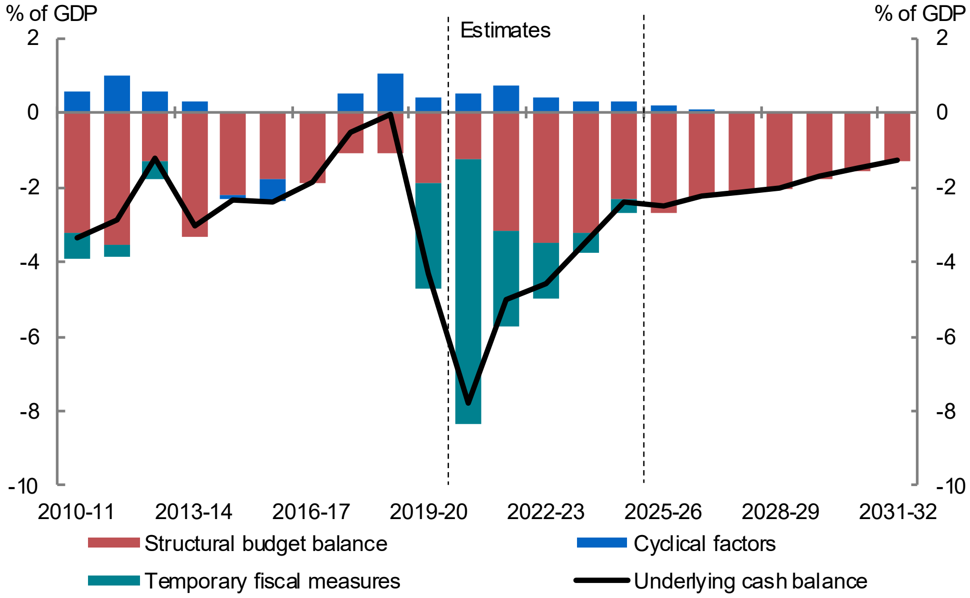
Estimates of the structural budget balance can provide broad insights into the sustainability of fiscal settings. Changes in the structural budget balance provide an indication of the impact that government decisions have on the budget position, independent of the current phase of the economic cycle.

The structural budget balance is estimated by removing temporary movements in receipts and payments from the underlying cash balance. These shifts are caused by cyclical factors such as temporary deviations in real GDP from potential (the output gap) or temporary deviations of commodity prices from their long-run trends, as well as temporary fiscal measures designed to support the economy through an economic crisis.

Cyclical factors are expected to provide a small contribution to the budget position over the forward estimates. In the near term, this largely reflects the impact of an elevated terms of trade, particularly due to higher iron ore prices, which more than offsets the effect of a negative output gap on receipts and payments in 2020-21 and 2021-22. By the end of the forward estimates, the contribution from cyclical factors is modest, consistent with the iron ore price having declined to its long-run assumption and an output gap that is closed.

In the near term, the unprecedented temporary economic support measures, in response to COVID-19, make significant contributions to the deterioration in the underlying cash balance. The underlying cash balance improves steadily from 2020-21 as the temporary measures are unwound and the structural budget balance improves from 2022-23.

Chart 3.11: Structural budget balance



Note: The presentation of the structural budget balance chart has been adjusted to separate the budgetary impact of temporary measures from structural factors. This approach follows the methodology detailed in Treasury Working Paper 2013-01. 'Temporary measures' comprise total direct economic and health support since the start of the COVID-19 pandemic. The 'cyclical factors' component comprises the estimated impact on the underlying cash balance from automatic stabilisers and cyclical movements in asset and commodity prices.

Source: Treasury.