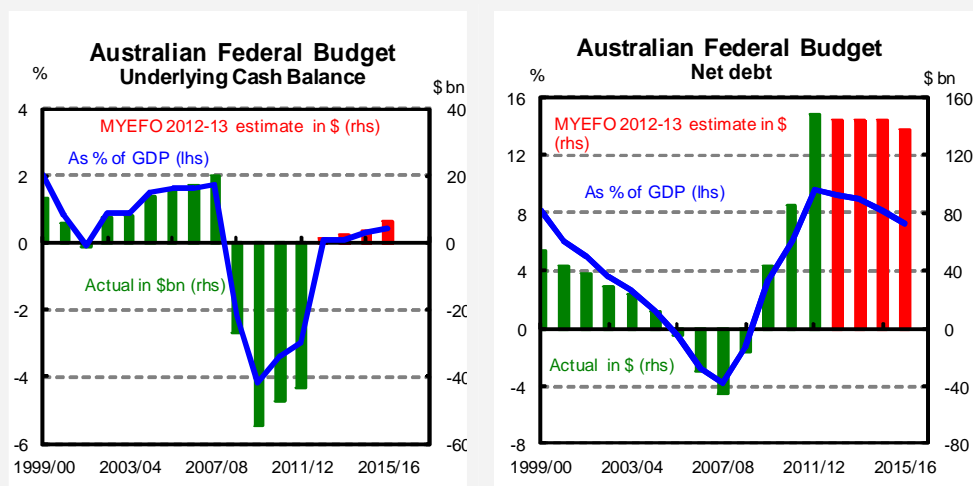


MYEFO 2012-13

Monday, 22 October 2012

- The Mid-Year Economic and Fiscal Outlook (MYEFO) revealed a minor downgrade to the budget estimate for 2012-13. A budget surplus of \$1.1bn is now expected for 2012-13, down slightly from the surplus of \$1.5bn forecast at the May Budget.
- Showing its commitment, the Government has also estimated its finances will remain in surplus for the financial years 2013-14 through to 2015-16.
- Growth forecasts for 2012-13 and 2013-14 have been revised downwards to below trend growth of 3.0% for both years from the forecast of trend growth of 3.25% for both years in the May Budget. Given the global economic backdrop and softer commodity prices, tax receipts are expected to be \$20bn lower over the forecast period, although this will be offset, in part, by non-tax receipts, expenditure cuts and other policy changes.
- Treasury's growth forecasts of 3.0% in 2012-13 and 2013-14 are reasonable, although the risks to the outlook are skewed to the downside. The global economic outlook remains uncertain and there are still areas of weakness in the domestic economy. This suggests that further spending cuts remain a possibility, given the government is committed to achieving a surplus in 2012-13.



The Mid-Year Economic and Fiscal Outlook (MYEFO) revealed downgrades to the budget estimates for 2012-13. However, the Government remains committed to a surplus, with an estimated surplus of \$1.1bn in 2012-13, down from the estimate of \$1.5bn in the May Budget. In 2013-14 the Government has revised up its estimate for a surplus to \$2.2bn, from \$2.0bn at the May Budget. For 2014-15 and 2015-16 the estimated surpluses are lower than those estimated in the May Budget.

Downgrades to growth forecasts are largely behind the weaker outcomes. Since the Budget, global economic conditions have deteriorated amid sovereign debt and banking problems in Europe and this has impacted growth in the Asian region.

Growth forecasts for 2012-13 and 2013-14 have therefore been revised downwards from around trend growth of 3.25% for both years in the May Budget to 3.00% for both years in today's MYEFO. These forecasts are very similar to our own – we are expecting growth of 2.9% and 3.1% respectively for 2012-13 and 2013-14. Treasury and our own forecasts are a little below Reserve Bank of Australia forecasts from its August Statement On Monetary Policy, however, the RBA has hinted that these will be downgraded. In August, the RBA forecast GDP growth of 3% to 3.5% for 2012-13 and 2.5% to 3.5% for 2013-14.



The MYEFO forecasts that the unemployment rate will edge up to 5.5% by the June quarter 2013. This is a little above our own forecasts for the unemployment rate to rise into the end of this year before edging down to 5.2% by the June quarter 2013.

As a result of weak global economic growth and softer commodity prices, tax receipts are expected to be around \$4bn lower this financial year and \$20bn lower over the forecast period. In the 2012-13 financial year, this will be offset in part by non-tax receipts and policy changes worth around \$2bn. The increased receipts and spending cuts announced today are likely to have limited additional contractionary impact.

Policy decisions since the Budget are estimated to have resulted in net savings of \$1.4bn in 2012-13 and \$5.1bn in 2013-14. Some of the major policy decisions include:

- An introduction of monthly pay-as-you-go (PAYG) instalments for large companies, which is expected to raise \$8.3bn over four years.
- Changes to the Government's contribution for private health insurance to take effect from 1 April 2014 and will result in savings of \$700 million over the three years from 2013-14.
- Reducing the baby bonus from \$5,000 to \$3,000 for second and subsequent children from 1 July 2013, reducing payments by \$461 million over three years.
- Increased spending in immigration related programs has offset some of the savings measures, which is expected to increase payments by \$1.1 billion in 2012-13.

Treasury's growth forecasts of 3.0% in 2012-13 and 2013-14 are reasonable, although the risks to the outlook are skewed to the downside. The global economic outlook remains uncertain and there are still areas of weakness in the domestic economy. This suggests that further spending cuts remain a possibility given that the government is committed to achieving a surplus in 2012-13. An upside is the scope for further monetary easing from the RBA if the growth outlook deteriorates further.



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