



Parliament of Australia
Parliamentary Budget Office

2020-21 Budget Chart Pack

A graphical summary of the 2020-21 Budget relative to the 2019-20 MYEFO

Foreword

These charts provide a visual summary of the key drivers of the changes between the 2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO) and the 2020-21 Budget at an aggregate level and by major area of revenue and spending.

Each chart contains the following elements for a given area of revenue or expenditure:¹

- the historical data
- the budget estimates from the 2020-21 Budget, 2019-20 MYEFO and, where available, the 2020-21 MYEFO²
- a decomposition of policy decisions and parameter variations between the 2019-20 MYEFO and the latest Budget
 - **policy decisions** comprise the revisions due to discretionary interventions by the government announced after the 2019-20 MYEFO, up to and including the 2020-21 Budget. Policy changes announced in previous updates are already included in the estimates (the lines in the charts) but not shown as variations (the bars).
 - **parameter variations** incorporates changes for any other reason, including revised economic conditions, revisions to a program's estimated recipient numbers, and re-profiling of expenditure.³

For an explanation of common budget terms, see the Parliamentary Budget Office's (PBO) online budget glossary

[https://www.aph.gov.au/About Parliament/Parliamentary Departments/Parliamentary Budget Office/Online Budget Glossary](https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Online_Budget_Glossary).

¹ The underlying cash balance, total receipts and total payments have been presented on a cash basis. All other charts are presented on an accrual basis.

² 'Budget estimates' is an official term used to describe the expected outcomes over the forward estimates period, which for this budget is 2020-21 to 2023-24.

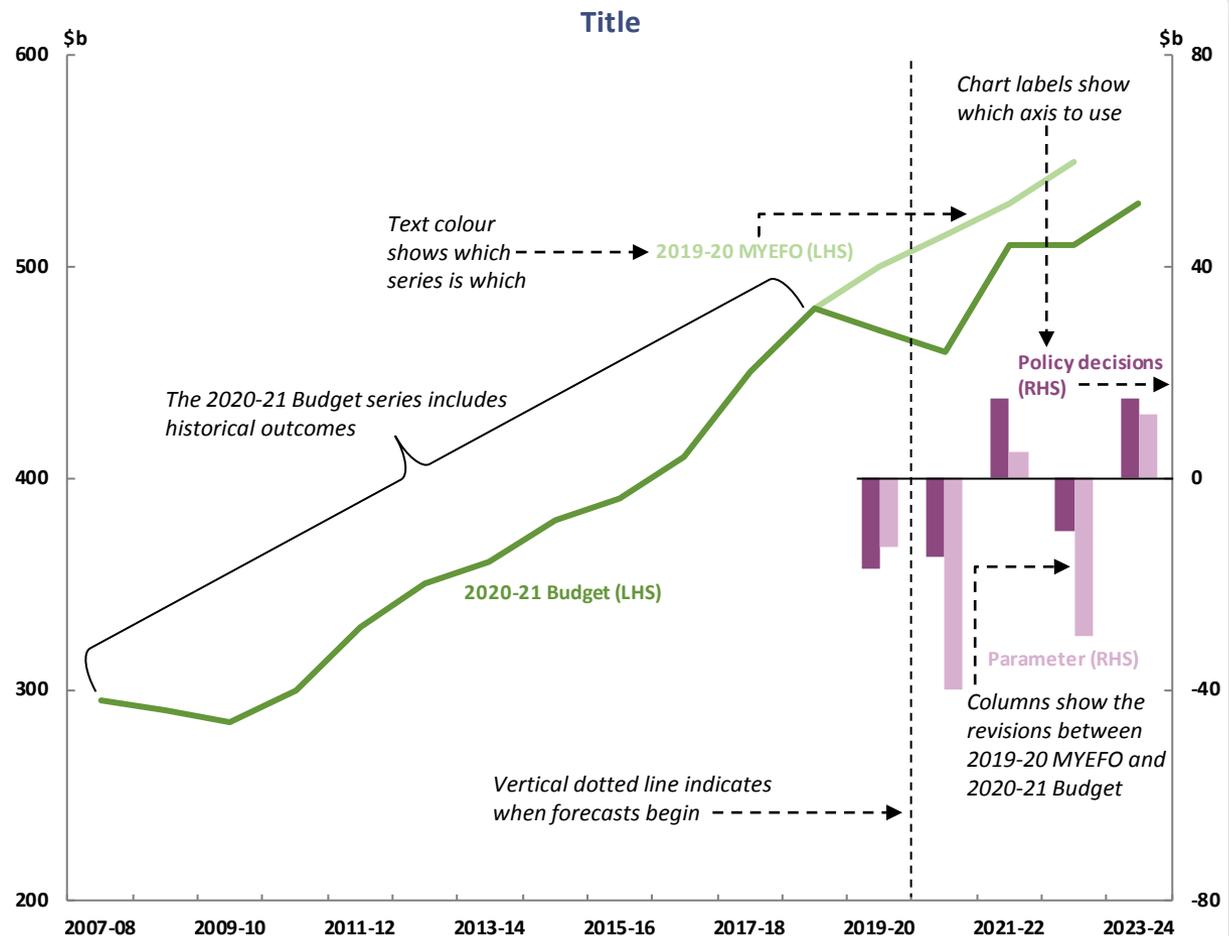
³ Parameter variations are only shown to 2022-23 for individual programs and heads of revenue, as this is the latest year for which estimates were provided in the 2019-20 MYEFO.

Chart explainer

As with the PBO's *2020-21 Budget Snapshot*, this chart pack aims to present key budget information in an accessible form to help improve the public understanding of budget issues.

This chart pack is usually published soon after the release of the budget, but this edition has been delayed due to the unique timing of the 2020-21 Budget.

The diagram to the right gives some tips on how to read most of the charts presented here.

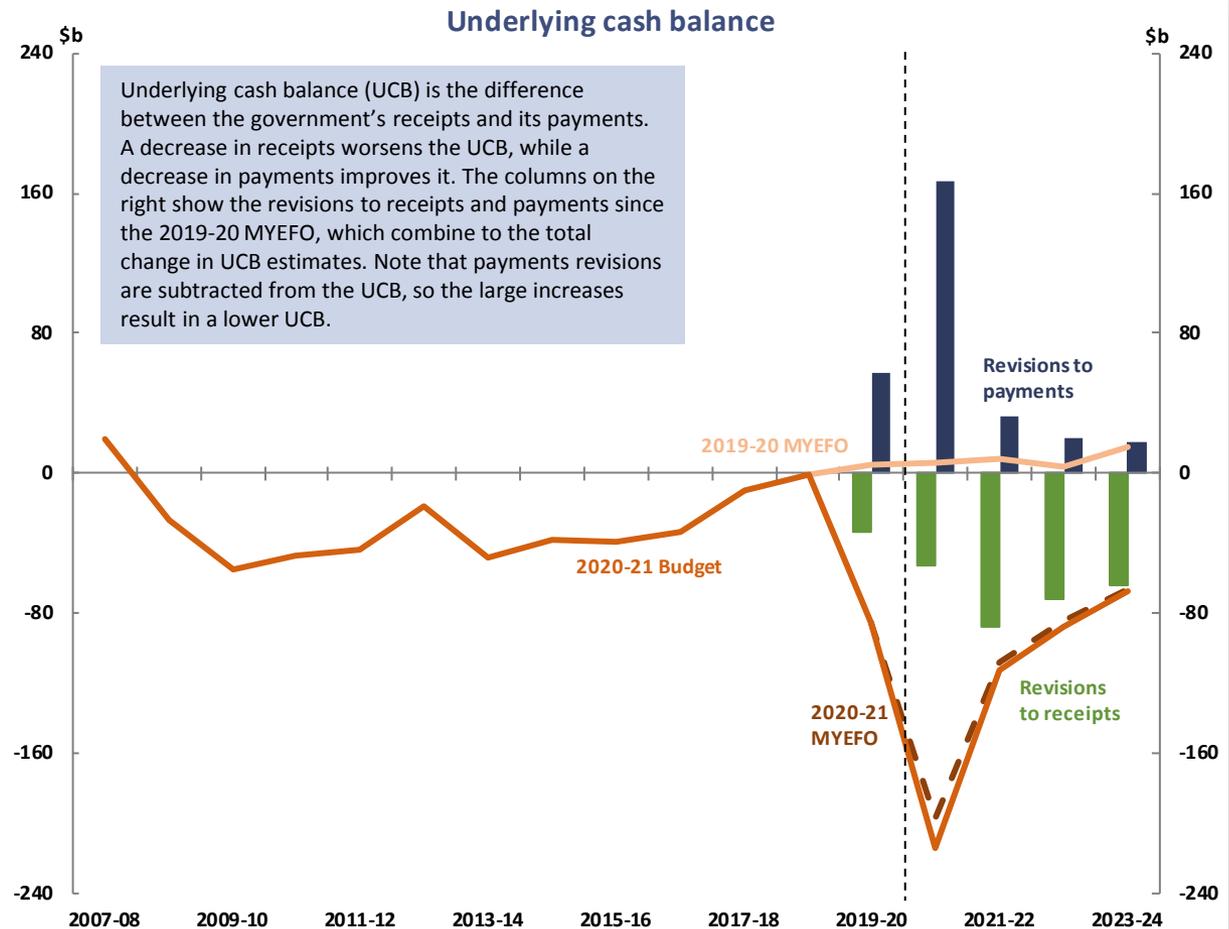


The underlying cash balance dramatically worsened as a result of the pandemic and associated policy response

The underlying cash balance has been revised down by \$604 billion over the five years to 2023-24, caused by revisions to both receipts and payments.¹

Payments are significantly higher in 2019-20 and 2020-21 due to the COVID-19 policy response, while receipts were revised down across all the forward years as a result of lower economic and population growth during the pandemic.

This outlook for the underlying cash balance improved by \$24 billion over the forward estimates in the 2020-21 MYEFO, due to the improved economic outlook since budget was released.



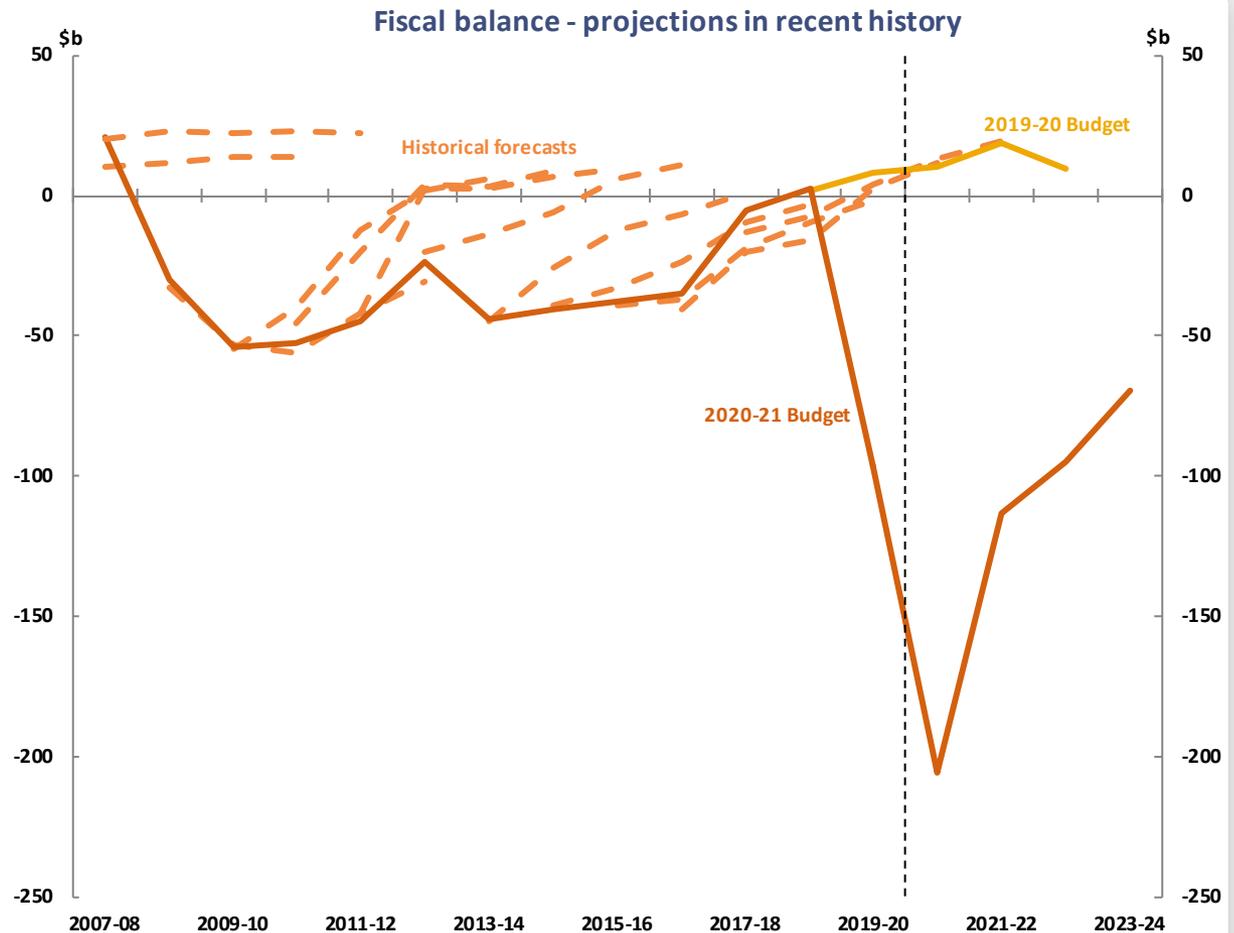
¹ Changes in net Future Fund earnings are included in the change in receipts figures in this chart. Up to and including 2019-20, the underlying cash balance excludes Net Future Fund earnings, which are only included in the underlying cash balance after they become available to meet the Commonwealth Government's superannuation liability in 2020-21.

Revisions to fiscal balance were far larger than those caused by the Global Financial Crisis

The fiscal balance is a budget aggregate reflecting the revenue earned and expenses incurred in a financial year, regardless of when the money is actually paid.

This chart shows the estimates of fiscal balance from each budget, starting from the 2007-08 Budget up to the 2020-21 Budget.

The revisions due to COVID-19 eclipse typical revisions to budget estimates, even those that occurred after the Global Financial Crisis in 2007-08.

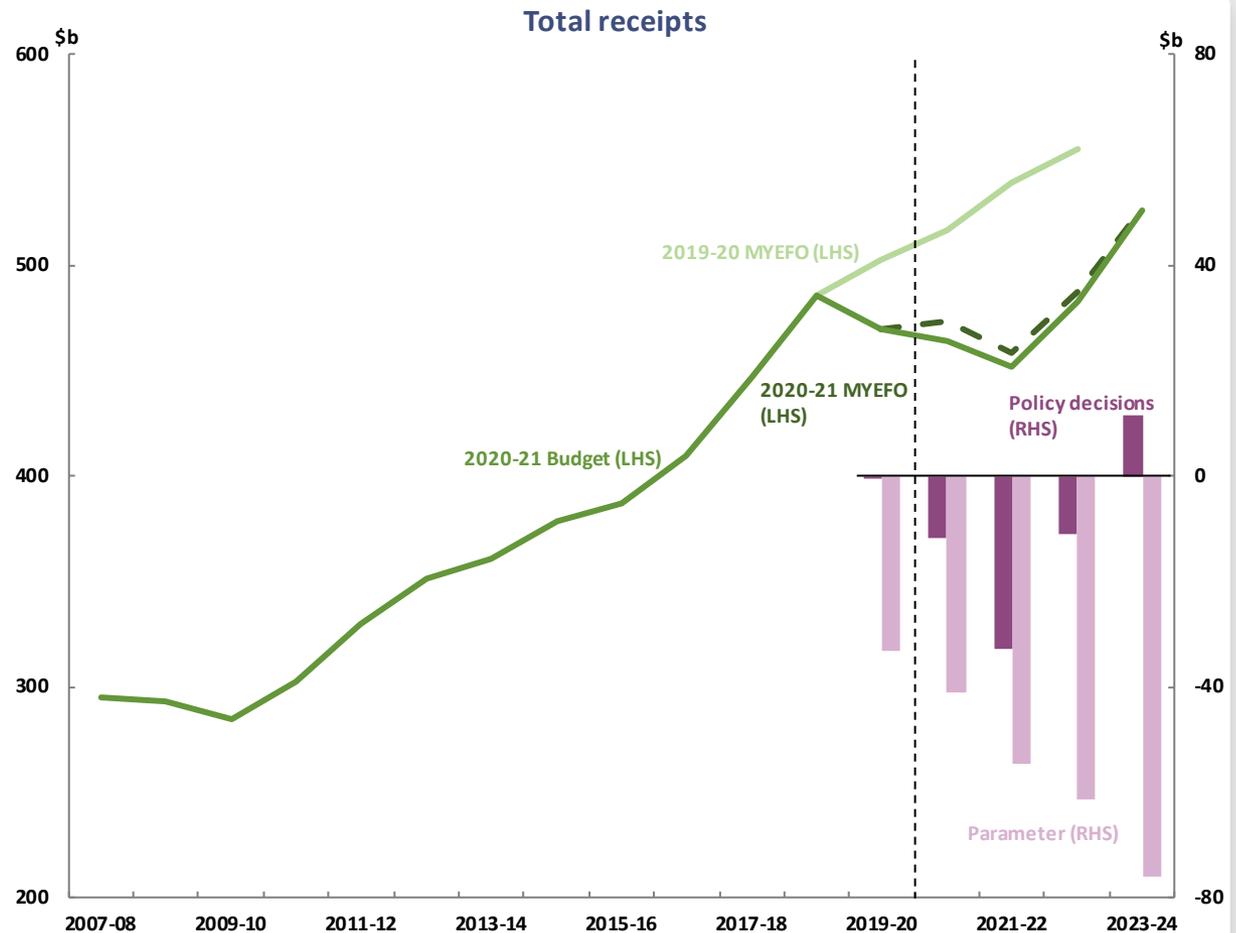


Downward revisions to receipts were driven by weaker economic forecasts...

Receipts have been revised down across almost every head of revenue, driven by significant declines in economic parameter forecasts totalling a \$233 billion downgrade in estimated receipts over the forward estimates.

Policy decisions, particularly company tax relief and the changes to the personal income tax cuts, result in a downward revision of \$44 billion over the forward estimates.

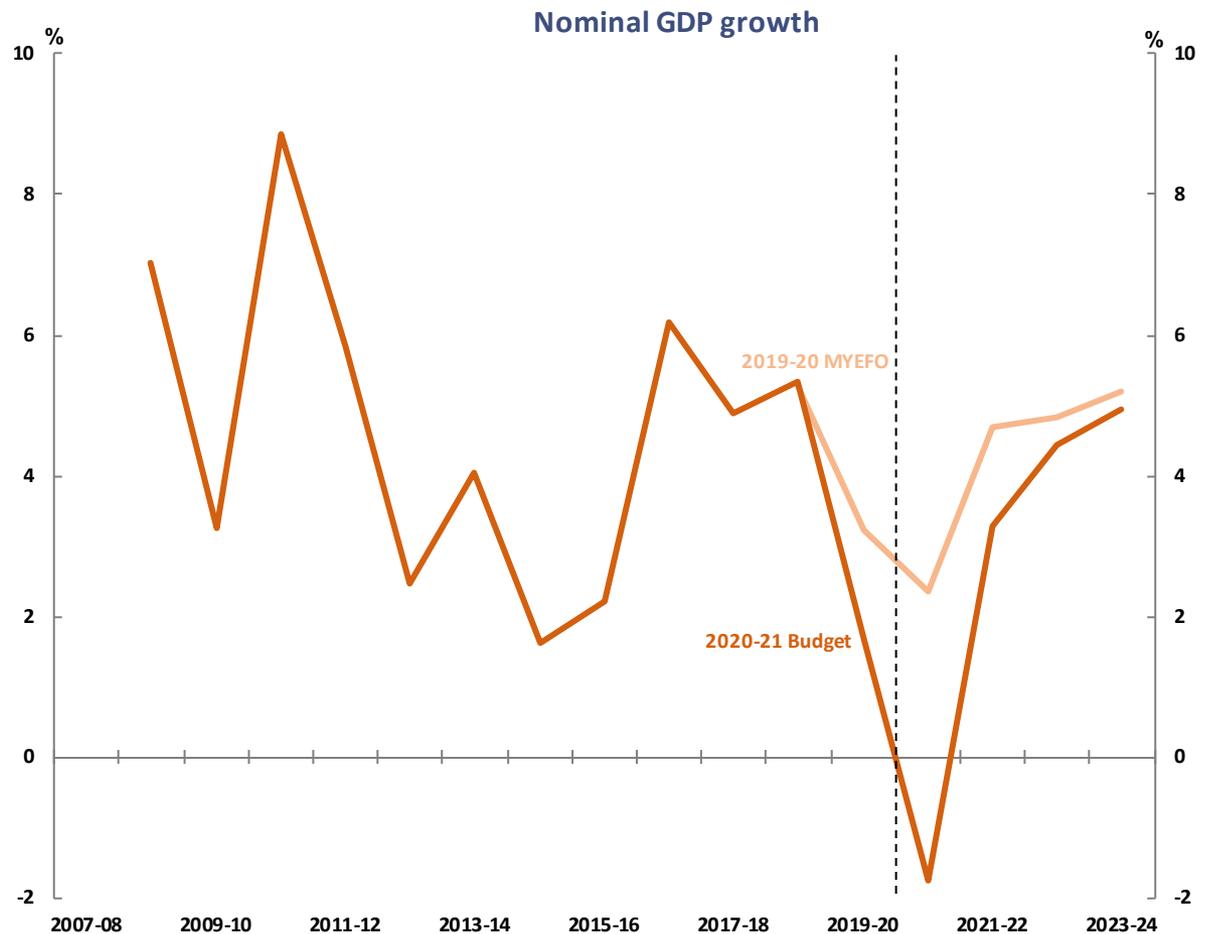
This outlook improved slightly in the 2020-21 MYEFO, as a number of these parameters were revised up due to an improved economic outlook since the budget was released.



... most notably for nominal Gross Domestic Product (GDP) growth

The COVID-19 pandemic caused a recession in Australia and across the globe. Nominal GDP growth was revised down significantly, with negative growth forecast for 2020-21.

While the growth rate is expected to recover to historical levels, the level of nominal GDP is forecast to remain substantially lower into the future than was expected at the 2019-20 MYEFO.

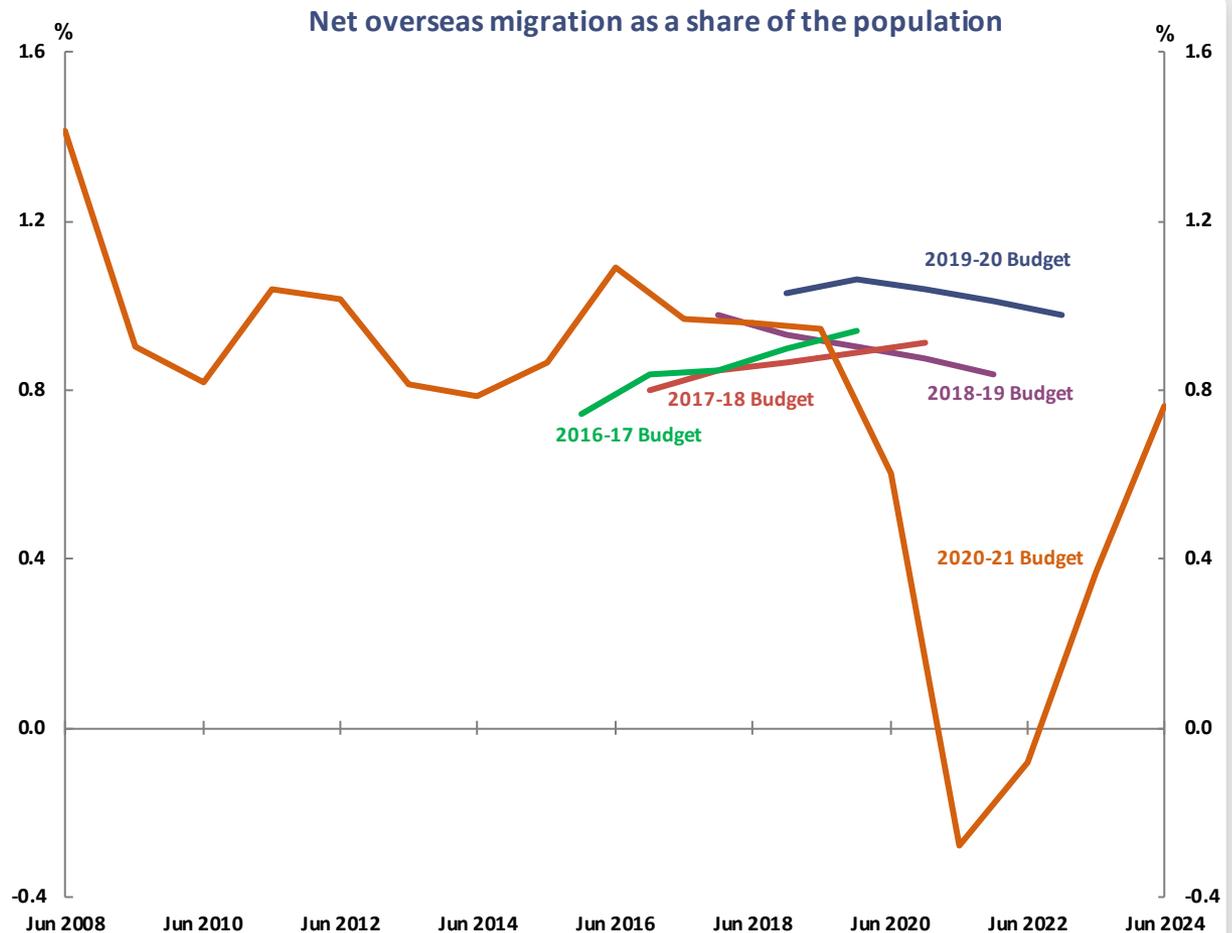


Lower net overseas migration is a key factor in lower GDP growth

As a result of the pandemic, net overseas migration has been revised down for each year of the forward estimates period. Between 2019-20 and 2022-23, these revisions are equivalent to around 900,000 fewer people migrating to Australia.¹

Lower expected net overseas migration leads to a decrease in Australia's working age population.

A smaller working age population feeds through to lower economic growth. This restricted growth is reflected in downward revisions for every major head of revenue.



Source: ABS Migration Australia

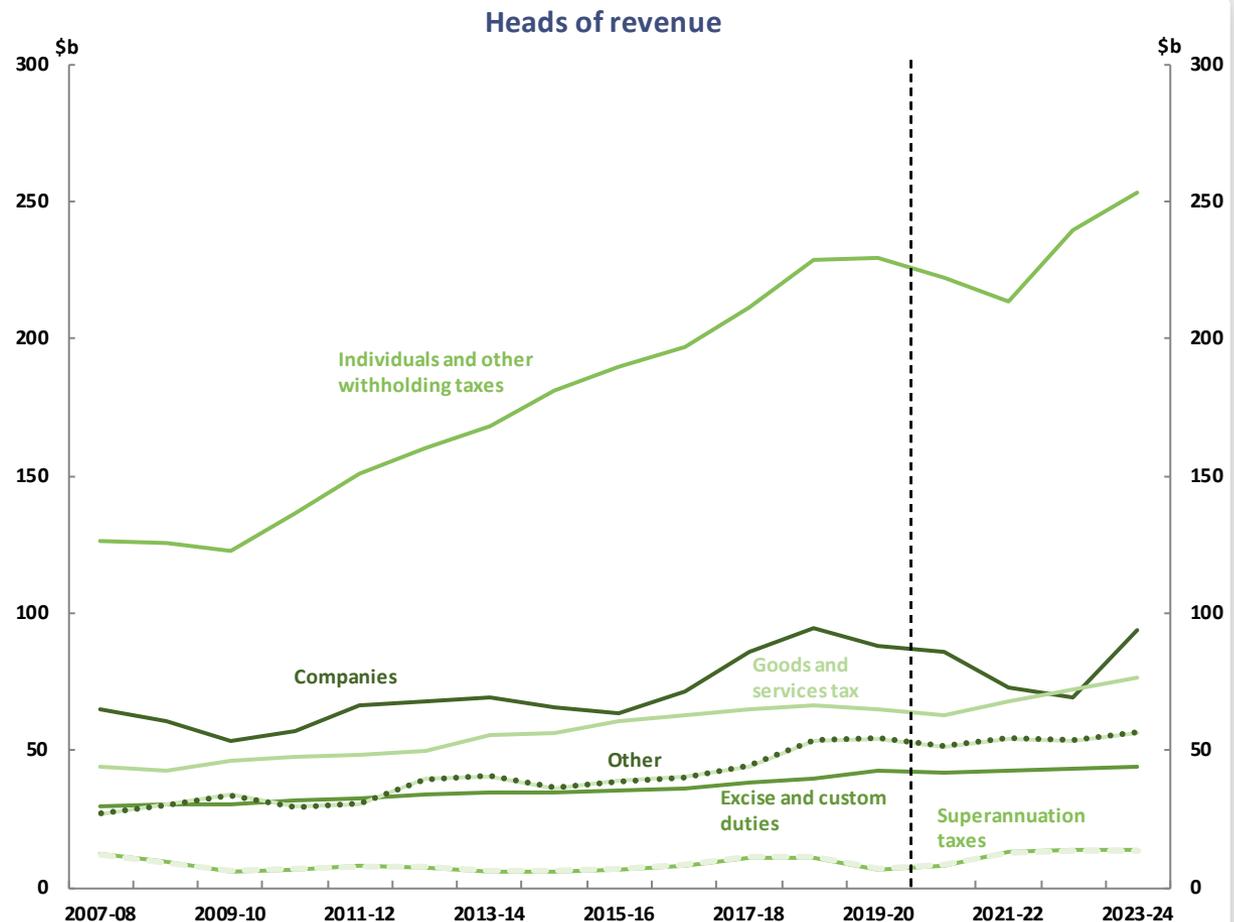
¹ For the 2016-17 to 2019-20 Budgets, forecasts were produced on a calendar year basis. The historical series and the 2020-21 budget estimates (orange line) were produced on a financial year basis.

The composition of government revenue has stayed broadly consistent

In level terms, revenue is expected to fall in most categories in 2020-21, with individuals and other withholding taxes and company tax experiencing the most significant decreases. However, the relative size of different heads of revenue is expected to remain similar to historical trends.

Personal income tax (individuals and other withholding taxes) is still expected to account for the majority of revenue until 2023-24.

Company tax and goods and services tax remain the two next largest components.

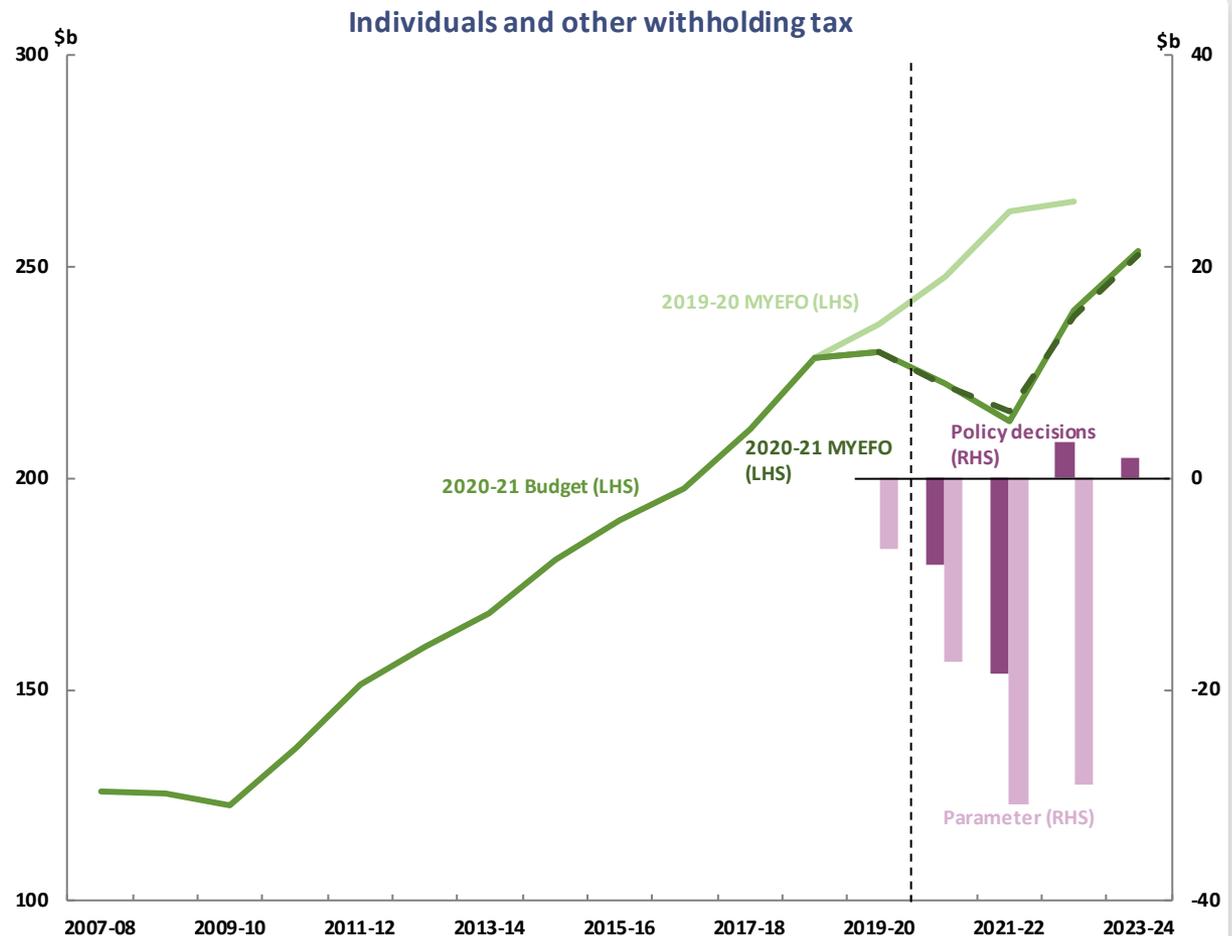


Personal income tax has been revised downward due to both policy decisions and parameter variations...

Wage and population growth have been revised down over the forward estimates, while unemployment has been revised up, peaking at over 7 per cent. These are the main drivers for the \$84 billion parameter revision to personal income tax revenue between 2019-20 and 2022-23.

Policy decisions, such as bringing forward income tax cuts, also result in a decrease in estimated income tax revenue of \$23 billion between 2019-20 and 2022-23.

There was very little change to these estimates in the 2020-21 MYEFO.

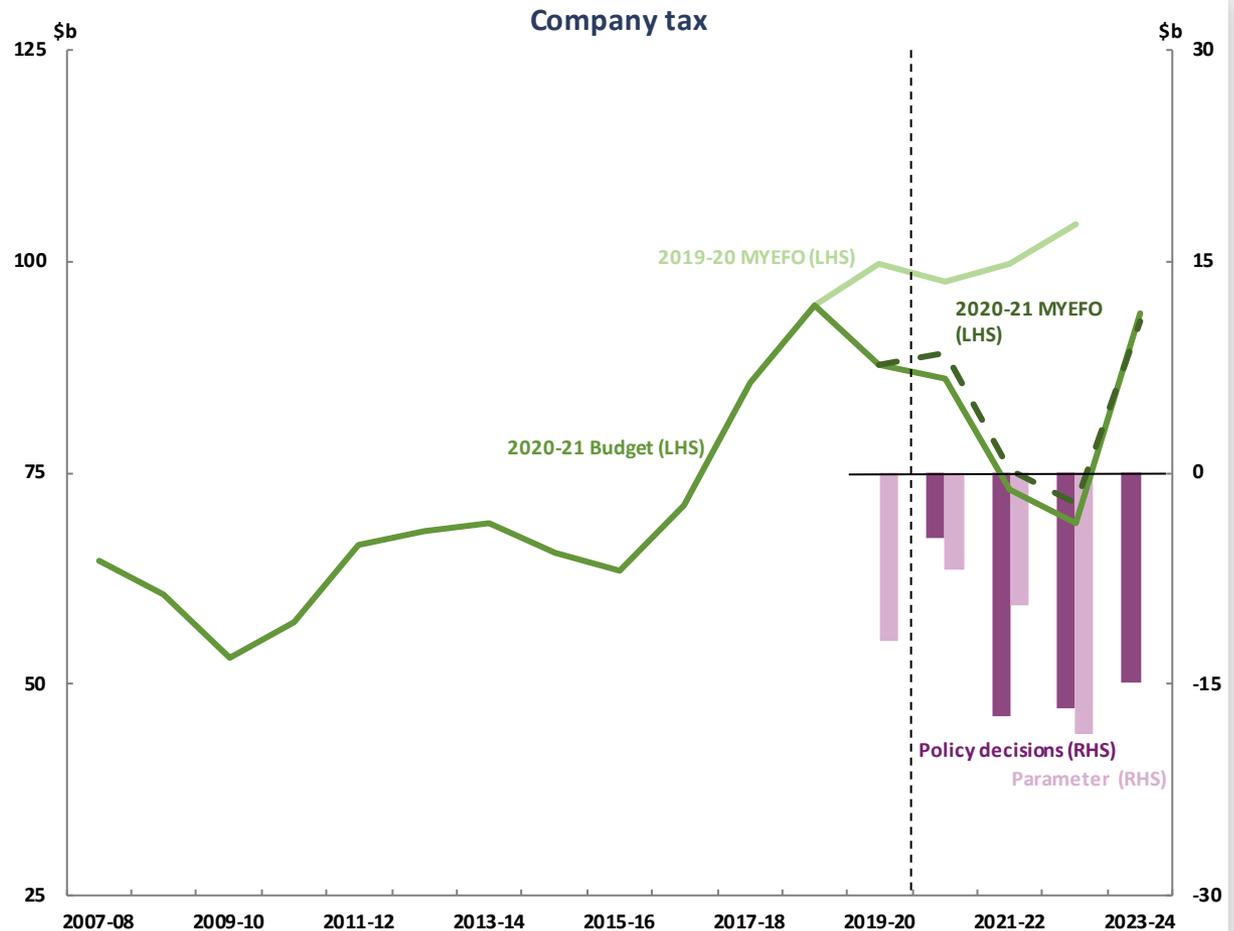


...as has company tax

Parameter variations account for \$35 billion of the downward revisions to company tax revenue across the budget estimates.

Company tax revenue was also revised down as a result of the policy response to the pandemic.

For example, the JobMaker plan provided immediate tax deductions for small businesses acquiring new assets. This measure is the main component of the \$54 billion policy revision to company tax revenue over the forward estimates.

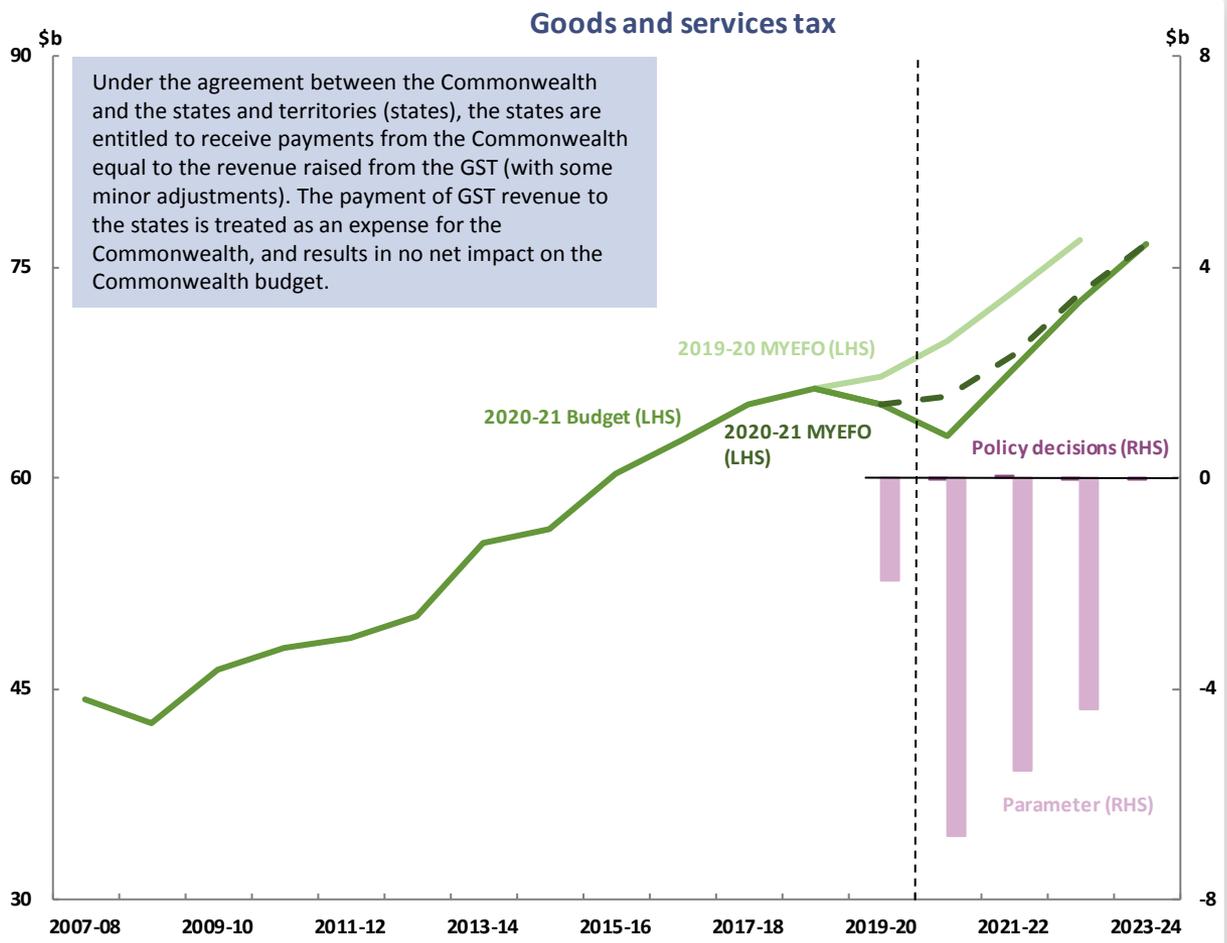


Revisions to goods and services tax (GST) revenue were almost entirely parameter and other variations

The downward revisions to GST revenue are driven purely by revisions to consumption and prices.

These parameter variations result in a decline of \$19 billion for the period spanning 2019-20 to 2022-23.

These estimates were revised up by \$4 billion over the forward estimates in the 2020-21 MYEFO, due to a better than expected recovery from the pandemic.

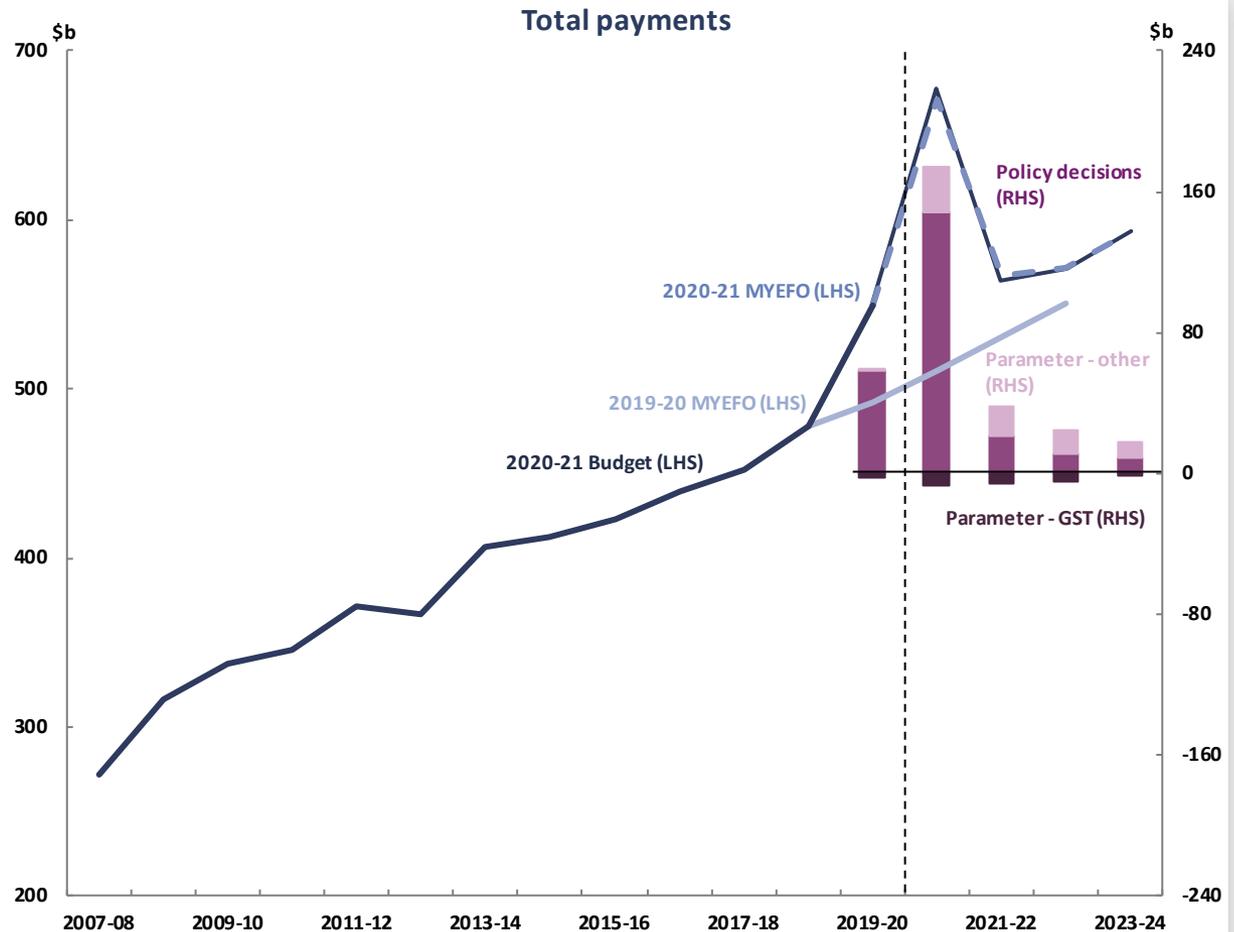


Payments have been revised up in each year of the forward estimates

Relative to the 2019-20 MYEFO, payments are expected to be \$295 billion higher over the five years to 2023-24. Of these revisions, \$148 billion occur in 2020-21 due to policy decisions.

Parameter variations accounted for \$48 billion of the increase to 2023-24. This includes decreased GST payments to the states due to lower revenue collections.

The government announced a number of policy decisions in response to the pandemic. JobKeeper and the coronavirus supplement were the largest contributors to the spending increase.

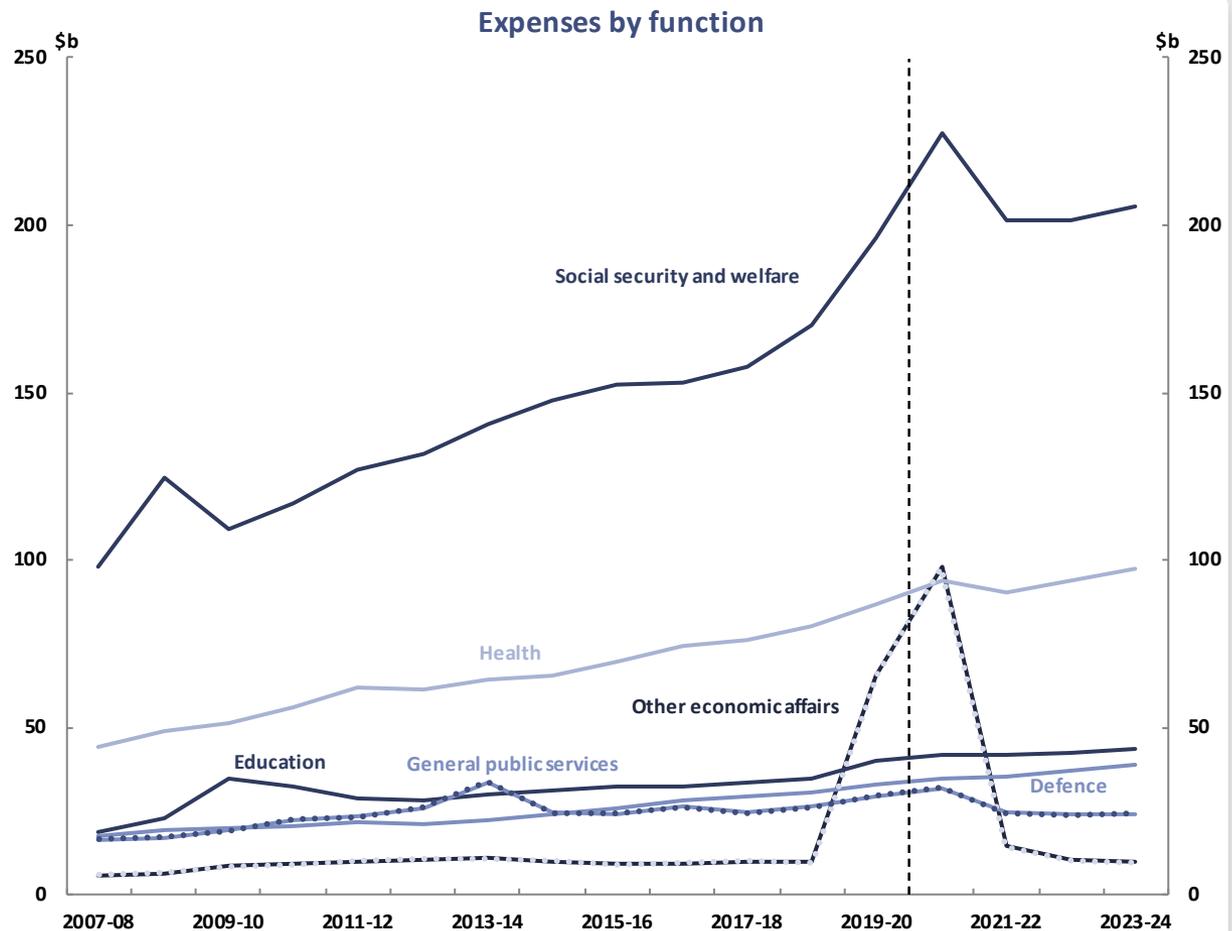


Social security and welfare is still the largest category of Commonwealth expenses

Expenses have increased across several categories due to the pandemic.

Estimates of other economic affairs, which incorporates the JobKeeper payment, is expected to peak at over 10 times its historical average in 2020-21.

Excluding other economic affairs, the relative size of other expenses is expected to stay broadly consistent with historical trends.

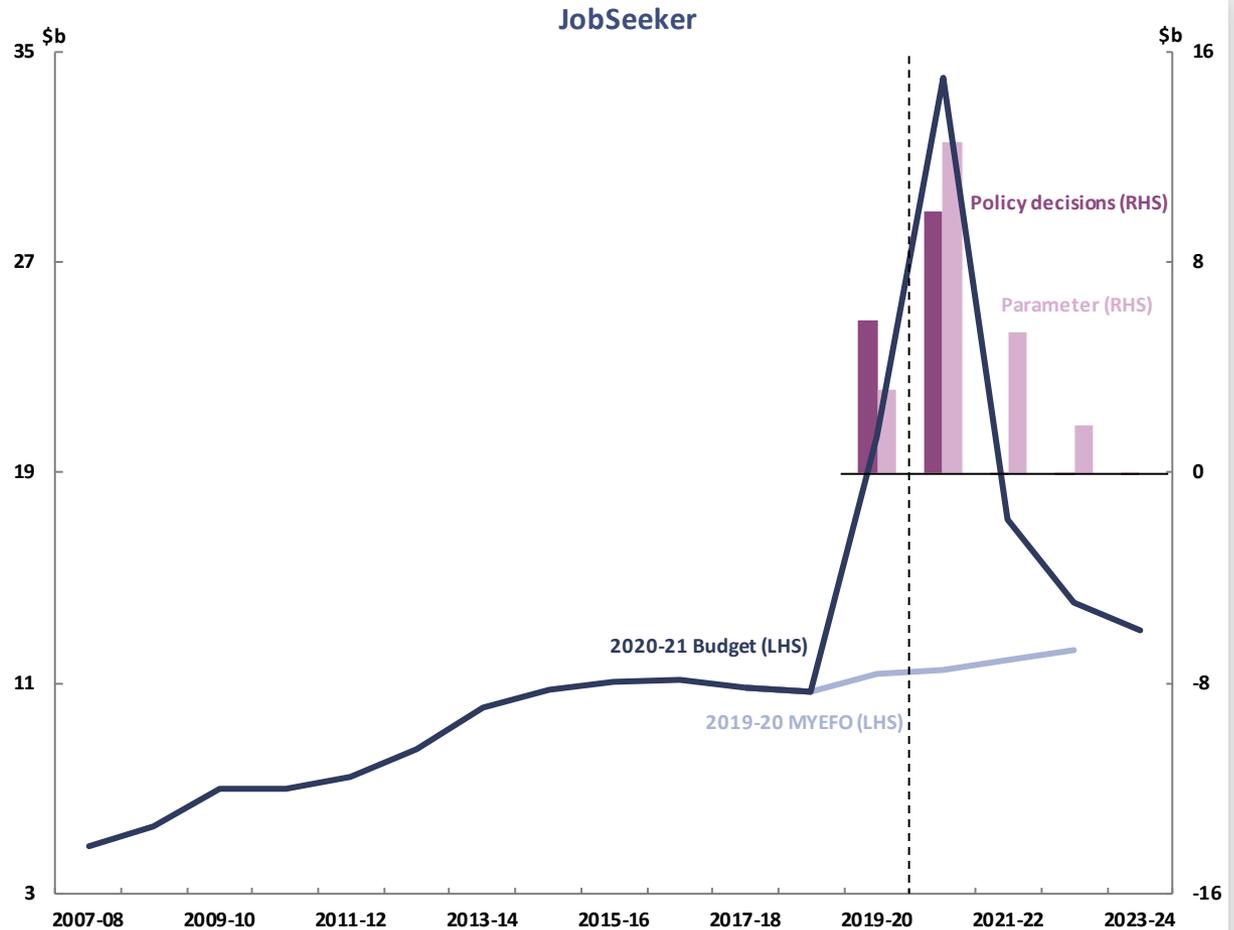


JobSeeker assistance expenditure has been revised up...

The JobSeeker payment (known as Newstart Allowance prior to March 2020) saw significant revisions due to both policy decisions and parameter changes.

On the parameter side, increased unemployment and a streamlined application process caused recipient numbers to more than double between December 2019 and June 2020.¹

Policy decisions were almost entirely temporary. For example, the coronavirus supplement will be completely phased out in 2020-21.



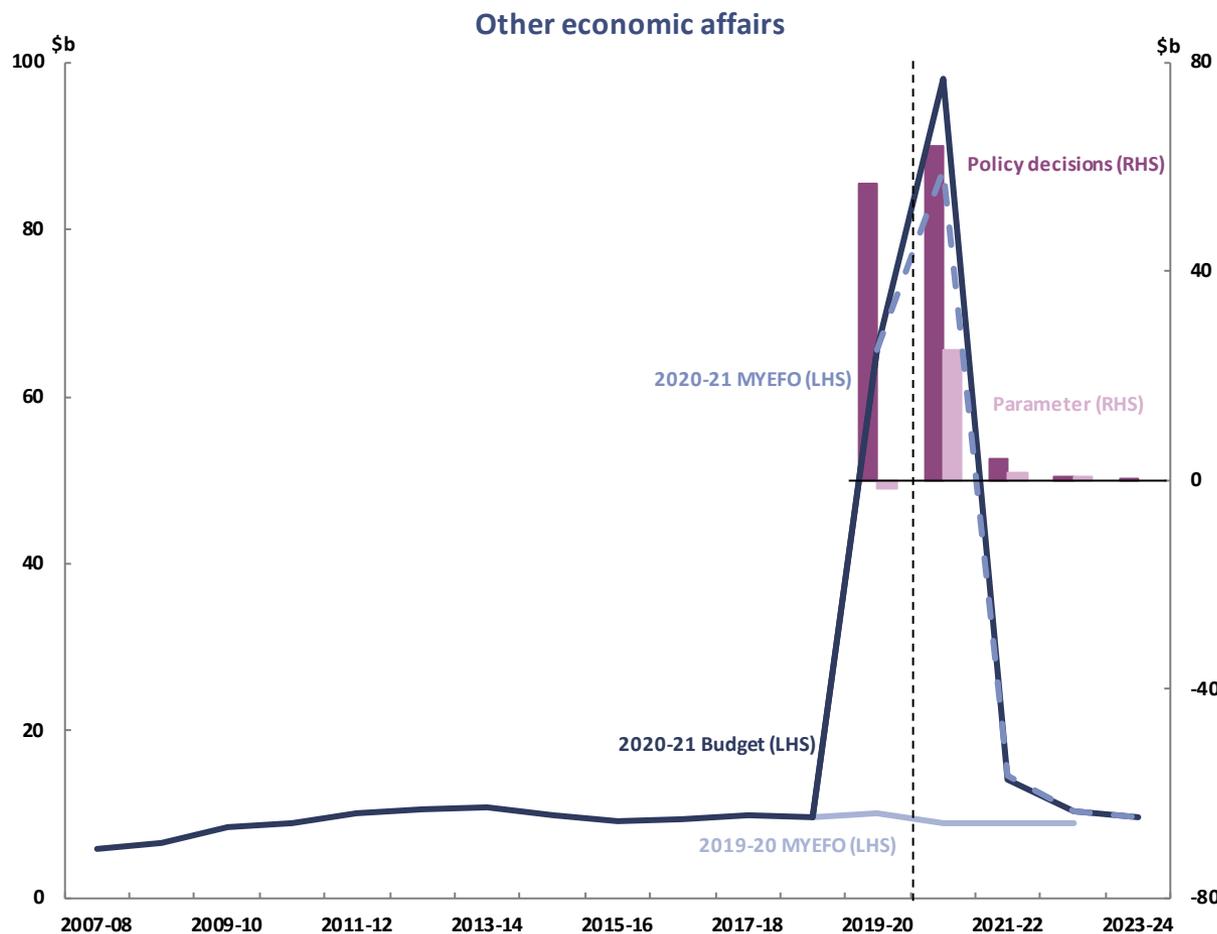
¹ JobSeeker Payment and Youth Allowance recipients – monthly profile. Published on <https://data.gov.au/data/dataset/jobseeker-payment-and-youth-allowance-recipients-monthly-profile>.

...and expenditure on other economic affairs has been dramatically increased due to JobKeeper

Other economic affairs includes miscellaneous expenses designed to help economic growth such as tourism, labour market assistance and industrial relations.

A number of the economic policies introduced in response to the pandemic, including JobKeeper, the JobMaker hiring credit, and Boosting Apprenticeships, are in this category.

The pandemic-related programs will be largely phased out by 2021-22, but some changes remain present until the end of the forward estimates.

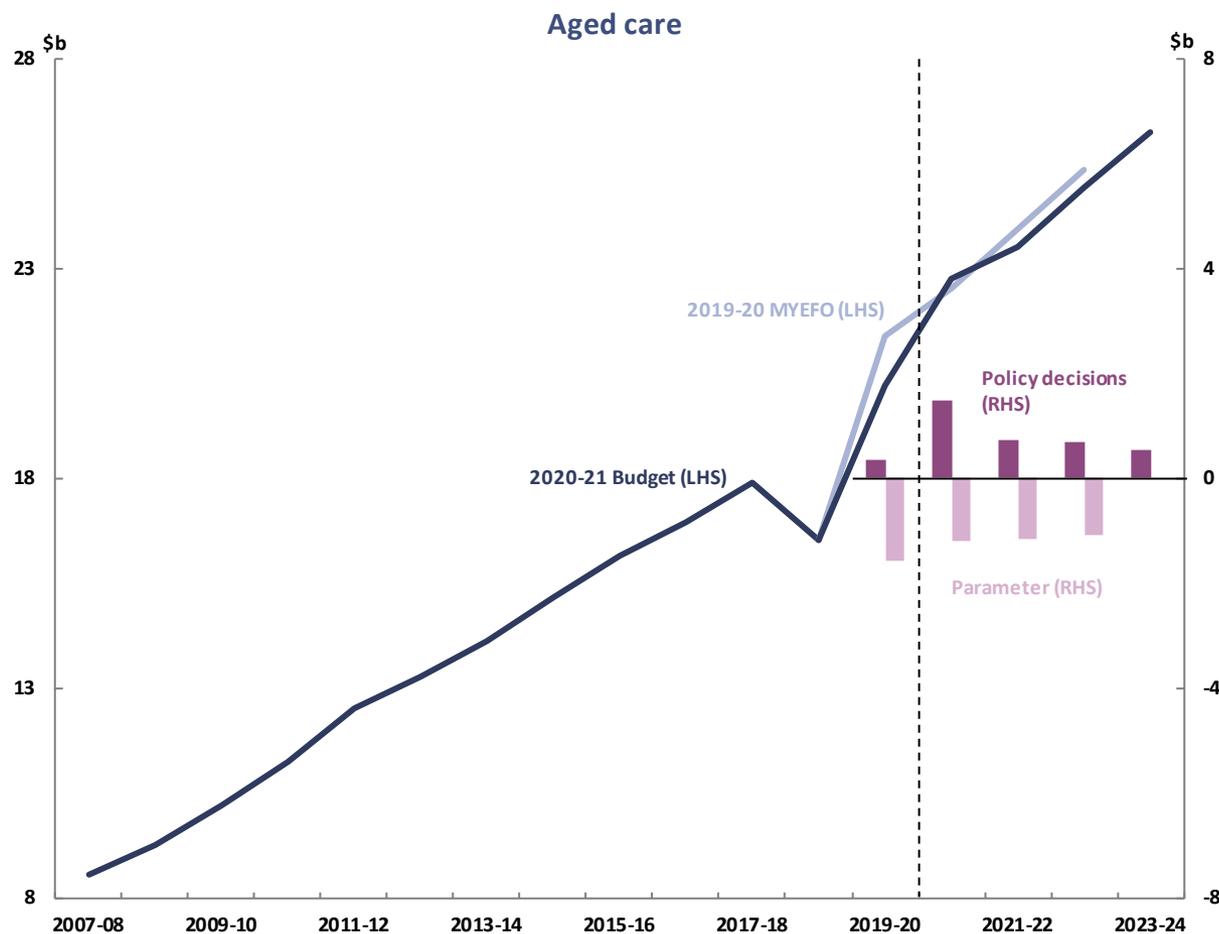


New policy measures are offset by lower price and wage growth in the aged care sector

Expenditure on aged care is sensitive to the wages of nurses and carers, as well as the prices of facilities and goods.

These prices and wages had restricted growth in 2019-20, and their growth rate is not expected to recover to pre-pandemic levels over the forward estimates, resulting in downward parameter variations in each year.

The effects of lower price and wage growth are offset by new policy measures, including the release of an additional 23,000 home care packages.



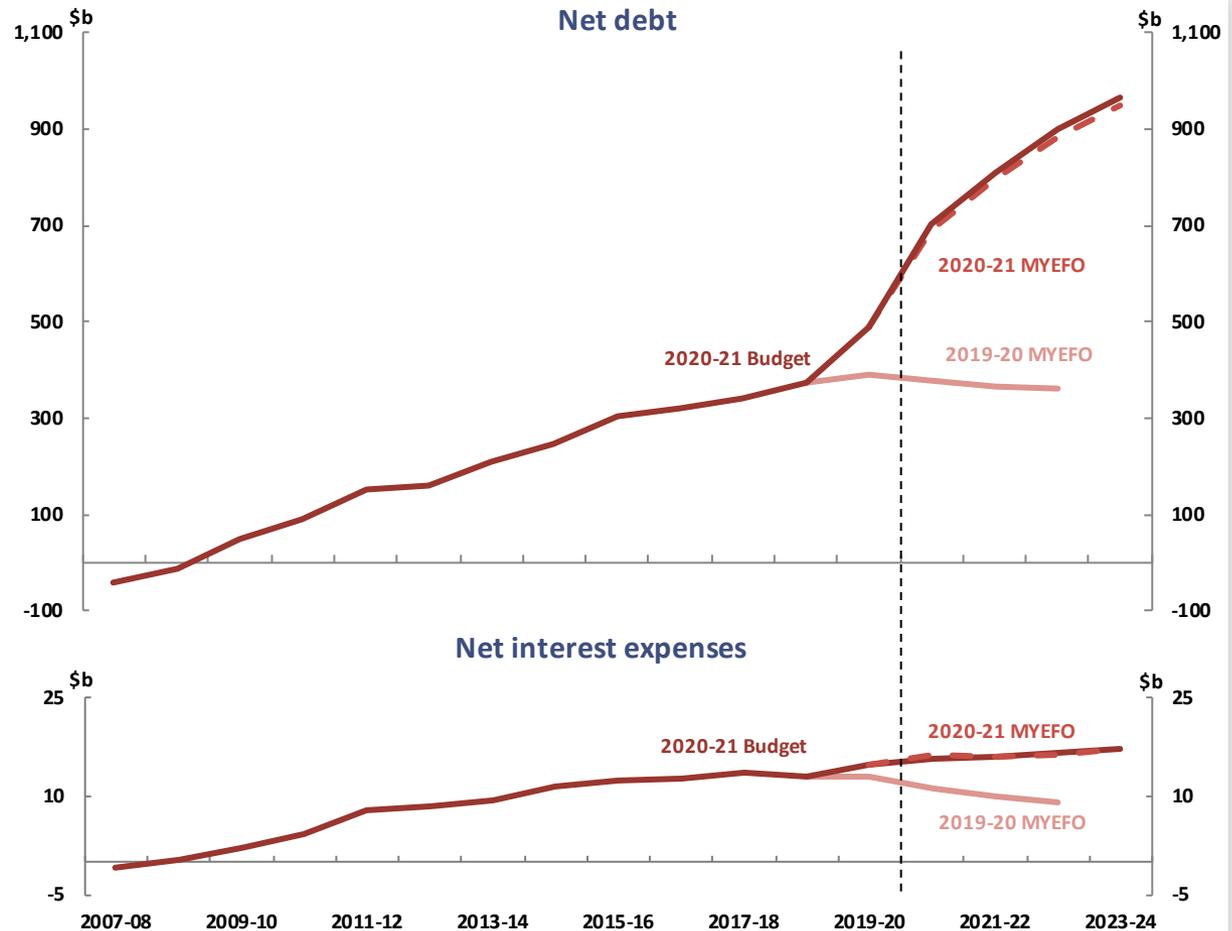
Net debt is expected to more than double between 2018-19 and 2023-24...

Given the magnitude of budget deficits over the forward estimates, net debt has been revised upwards significantly.

Net interest expenses, however, remain fairly consistent.

Historically low interest rates mean that interest expenses on higher debt levels are relatively stable over the forward estimates.

Prior to COVID-19, net debt was expected to slowly reduce over the forward estimates period as the budget returned to surplus. Net interest expenses were expected to steadily decrease.

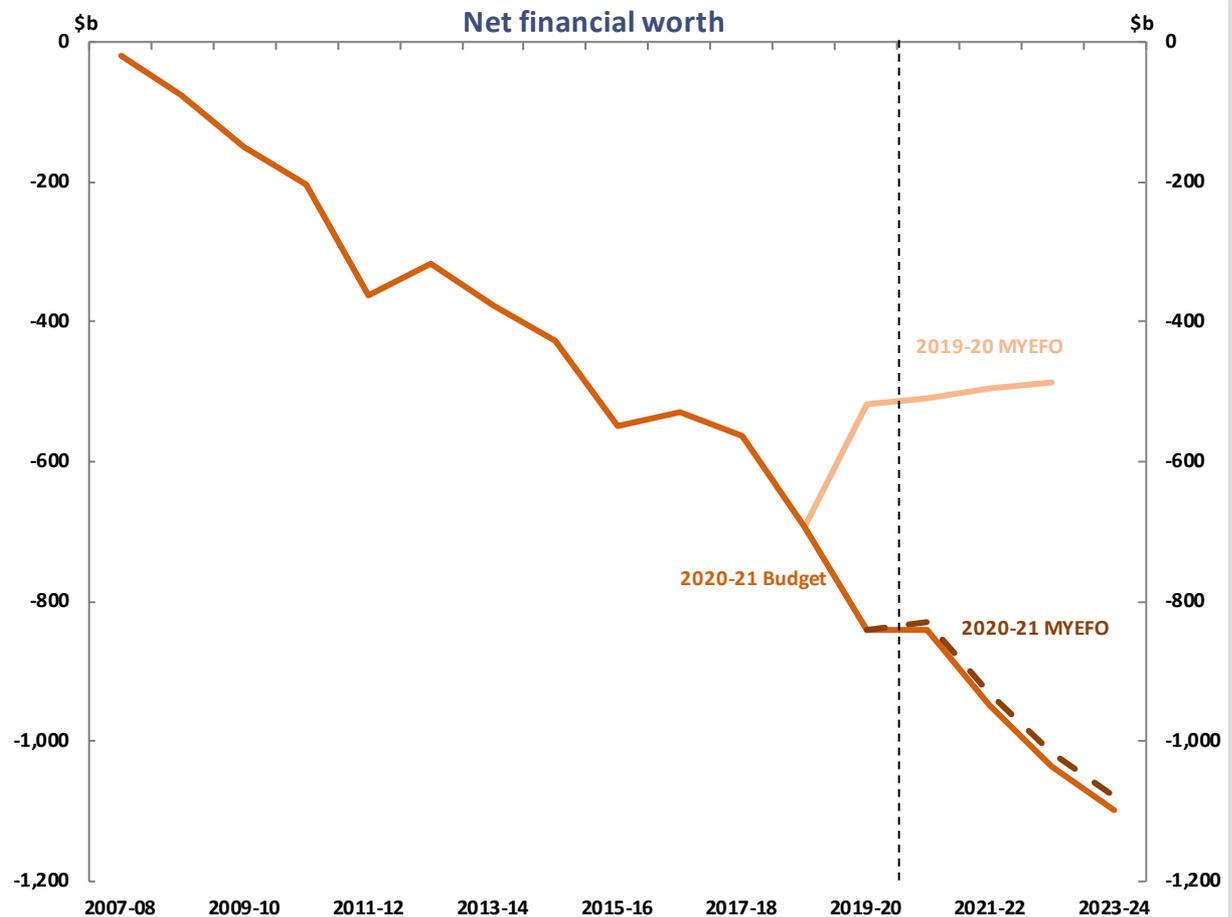


Net financial worth is expected to be significantly lower than at 2019-20 MYEFO

Net financial worth is a broad assessment of fiscal sustainability, and includes assets in the Future Fund and public sector superannuation liabilities.

Net financial worth is expected to continue to decline over the forward estimates, as the budget is expected to remain in deficit, increasing the level of government bonds on issue.

The value of some government assets and liabilities will likely change as a result of the pandemic. For example, record-low interest rates increase the market value of government bonds, leading to a higher bond liability.



Notes

Data contained in these charts are based on information published in the 2020-21 Budget, the 2019-20 MYEFO, the 2019-20 Final Budget Outcome, the July 2020 Economic and Fiscal Update, the 2020-21 MYEFO and government agency annual reports. Historical estimates and outcomes were taken from previous budget releases. Where additional sources were used, these are listed underneath the relevant chart. Additional information provided by agencies has supplemented the publicly available information in some cases.

The charts show the financial impact of policy decisions from 2019-20 to 2023-24. The charts show movements due to parameter and other variations which are only available for 2019-20 to 2022-23. This is because the last year of the forward estimates at the 2019-20 MYEFO was 2022-23, with the 2023-24 projection being published for the first time at the 2020-21 Budget.

This differs from the reconciliation of the underlying cash balance table in *Statement 3 of Budget Paper No. 1*, in which the totals exclude the 2019-20 estimate and include the 2023-24 estimate.

At the aggregate level, the *underlying cash balance*, *total receipts*, and *total payments* charts have been prepared on a cash basis, as the government's key fiscal aggregates are cash based. Charts on individual elements of revenue and expenditure, including net debt and public debt interest, have been prepared on an accrual basis, consistent with the presentation of decisions in the Budget papers.

Since the 1999-2000 fiscal year, Commonwealth Government financial statements have been reported on both an accrual and cash basis. Under accrual accounting, government income is referred to as 'revenue' and costs as 'expenses'. Under cash accounting, government income is referred to as 'receipts' and costs as 'payments'.

The PBO does not have access to the details of provisions for individual items in the Contingency Reserve. Accordingly, the charts in this report are subject to the qualification that they are prepared in the absence of information on the possible impact of any provisions in the Contingency Reserve.