BULLETIN

18 October 2022

Australian Federal budget: a preview. Delivering on election promises. Structural deficit challenges.

Overview

The Australian Treasurer will release the Federal Budget on October 25. This will provide an update of the budget outlook following the recent Federal election, held on 21 May - which resulted in a change of government.

Recall that the previous government released their Budget on March 29, which was promptly followed in April by the Pre-election Economic and Fiscal Outlook (PEFO). The PEFO was by and large a restatement of the March Budget, which was released just weeks earlier.

Here we set out our expectations for the numbers the Government will present in the October Budget.

These are not our forecasts, but rather our expectation of the Government's forecasts. Westpac's own economic forecasts are not necessarily in line with the forecasts we expect the Government to adopt on Budget Night.

The economic forecasts on which we base the figuring are largely in line with the forecasts the Treasurer released on July 28 with some adjustments to take into account a further deterioration in the growth and inflation outlook.

We anticipate that relative to July, the October Budget forecasts will mainly differ for the 2023/24 year. For 2023/24, the changes relative to July will likely be: real GDP growth downgraded by 0.5% (to 1.5%), nominal GDP trimmed by 0.25% (to flat), inflation lifted by 0.75% (to 3.5%), and the unemployment rate will be lifted by 0.25% to 4.25% and in the following two years to 4.50% from 4.25%.

At the outset, we would note that there is a high degree of uncertainty around fiscal forecasts and projections, particularly around the government's intention to review the previous government's costing of existing programs.

Here we set out a potential profile for the underlying budget deficit, incorporating surprises on both revenues and expenditures.

New policy initiatives centre on the government delivering its promises from the election campaign, including proposed savings. We do not expect the government to extend any of the business tax incentives that are due to expire in 2022/23.

The key themes of this Budget will be around the $47.9bn improved starting point for the deficit in 2021/22; the slower growth and higher inflation than assumed in the PEFO calculations; and a potentially significant lift in the new government's costing of some major existing programs - notably, the NDIS; aged care; health care; and defence.

While we expect the budget deficit over 2021/22 and 2022/23 to be $81bn lower than in PEFO, the improvement over the full five year period 2021/22 to 2025/26 is only $27bn as emerging slower economic growth and higher expenses and program costings take hold in the last 3 years of the forward estimates.

Table 1: key economic numbers

		'21/22	'22/23	'23/24	'24/25	'25/26
Real GDP	PEFO	4.25	3.50	2.50	2.50	2.50
	Budget	3.9	3.00	1.50	2.25	2.50
Nominal GDP	PEFO	10.75	0.50	3.00	5.25	5.00
	Budget	11.1	5.25	0.00	4.50	5.00
Unemployment	PEFO	4.00	3.75	3.75	3.75	4.00
June quarter	Budget	3.8	3.75	4.25	4.50	4.50
CPI	PEFO	4.25	3.00	2.75	2.75	2.50
%yr to Jun qtr	Budget	6.1	5.50	3.50	2.50	2.50
Wages	PEFO	2.75	3.25	3.25	3.50	3.50
% yr to Jun qtr	Budget	2.75	3.75	3.75	3.75	3.50

* Westpac's expectations of Government forecasts to appear in the October Budget.
Sources: budget papers, ABS, Westpac Economics

Table 2: key budget numbers

	'21/22	'22/23	'23/24	'24/25	'25/26
$bn					
Budget deficit, PEFO	**-79.8**	**-77.9**	**-56.5**	**-47.1**	**-42.9**
% of GDP	-3.5	-3.4	-2.4	-1.9	-1.6
Revenue surprise	27.6	59.5	14.5	1.1	3.0
Payment surprise	-20.3	26.4	18.0	22.0	32.2
Net improvement	47.9	32.9	-3.5	-20.9	-29.1
Budget deficit, October	**-31.9**	**-45.0**	**-60.0**	**-68.0**	**-72.0**
% of GDP	-1.4	-1.9	-2.5	-2.7	-2.7
Gross debt, PEFO	906	977	1,056	1,117	1,169
% of GDP	39.5	42.5	44.6	44.9	44.7
Gross debt, October	895	902	994	1,086	1,176
% of GDP	39.0	37.3	41.1	43.0	44.3

* Westpac's expectations of Government forecasts to appear in the October Budget.
** **Budget deficit refers to the underlying cash deficit.**
Sources: budget papers, ABS, Westpac Economics

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

That is, we expect the budget position for the final years of the forward estimates, 2023/24 to 2025/26, to deteriorate by around $53.5bn relative to that in PEFO.

This October update will be followed in about six months by the May Budget 2023, which will provide the government with another opportunity to reshape the fiscal settings.

Budget deficit profile

The budget deficit profile in the October Budget will differ materially from that in the April PEFO.

PEFO envisaged that the budget deficit would narrow each year across the forward years, to be $42.9bn, 1.6% of GDP, in 2025/26. This profile represented an apparent path back towards balance.

In October, a stronger starting position will be viewed as temporary. The deficit will widen and then persist at a relatively sizeable level, of around 2.7% of GDP by 2025/26.

The Treasurer is likely to interpret such a profile as suggesting that the nation faces a fiscal challenge.

We expect the October Budget to forecast that the deficit will increase each year, in dollar terms, to be: around $45bn in 2022/23 (up from a $31.9bn outcome for 2021/22); $60bn in 2023/24; $68bn in 2024/25 and then lift to $72bn by 2025/26. See table 2 for additional detail.

On our figuring, across the five years to 2025/26, the budget deficit is $27bn less than that in PEFO. Alternatively, after the $47.9bn positive surprise in the 2021/22 budget outcome, the deficit deteriorates by around $21bn.

The deficit in 2024/25 is $21bn larger than in PEFO, rising to a $29bn deterioration in 2025/26.

The emergence of larger budget deficits in the outer two years reflects additional expenditure pressures and the absence of any material upward revenue surprise due to emerging weaker economic prospects.

Whereas the size of the economy in 2022/23 is now forecast to be 5% larger than anticipated in PEFO, by 2025/26 that narrows to only 1.3%. Moreover, while the revenue share of the economy surprised to the high side in 2021/22 and will likely do so in 2022/23, by 2025/26 that share is likely to underperform a little relative to PEFO, in part reflecting a higher unemployment rate.

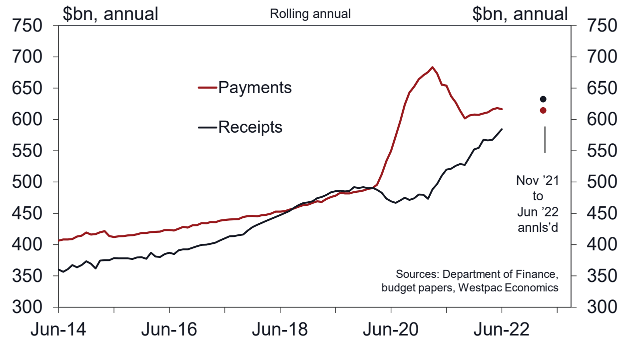
In summary, payments across the five years to 2025/26 are $78bn higher than in PEFO, on our figuring.

Revenue across the five years is around $106bn higher than in PEFO, on our calculations. This is front loaded, with an $87bn upside across the two years to 2022/23 but only a $4bn upside across the final two years to 2025/26.

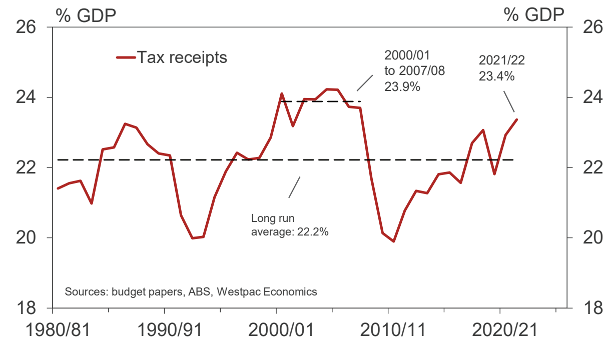
On July 28, the Treasurer in a Ministerial Statement on the Economy to Parliament foreshadowed that the October Budget will mark down the profile for output growth from that in PEFO. Since then, the outlook has deteriorated further - pointing to a larger downgrading of growth. Of note, we expect real GDP growth for 2023/24 to be slashed by 1ppt, to only 1.5% - see table 1 for additional detail.

This will see the unemployment rate profile lifted, to be at 4.5% for 2024/25 and 2025/26, up materially from 3.75% and 4.00% respectively in PEFO.

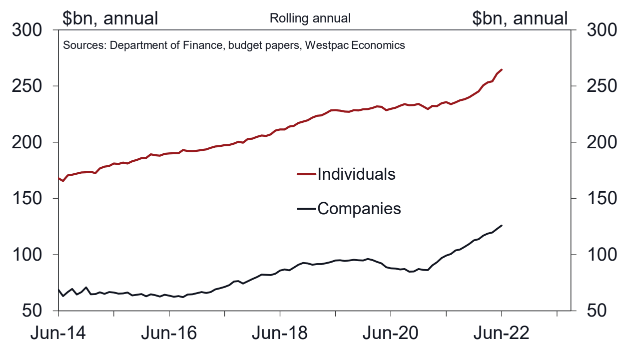
Receipts & Payments: converged during 2021/22



Taxation receipts: cyclical high in 2021/22



Taxation receipts



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

Inflation will be higher for longer than expected in PEFO. High inflation, higher interest rates and the weaker economic outlook will place upward pressure on expenditures.

Additional upside pressure on expenditures will come from: higher program costs; under provisioning (that is the out-years do not adequately provision for the ongoing requirements of existing programs); and “slippage” (delays in spending in 2021/22 resulting in a catch-up in following years).

New policy

The October Budget will deliver on the election promises of the incoming government - which were largely fully funded.

Signature policies and key priorities, and their cost over the four years to 2025/26 as estimated by the Parliamentary Budget Office (PBO), were:

* “Cheaper Child Care”, $5.1bn;
* education, skills and training, $1.9bn,
* “Fixing the Aged Care Crisis”, $2.5bn;
* health and aged care more generally, an additional $2.9bn; and
* climate change and energy, $1.2bn.

Measures across the Treasury, Finance, Housing and Public Service portfolios made net savings of $8.7bn across the four years, including:

* extend and boost existing ATO programs, $3.1bn;
* taxing multinationals, $1.9bn;
* reduce public sector spending on contractors etc, $3.0bn.

The Parliamentary Budget Office, in their July report on election commitments, suggested that Labor policies in net terms had a minimal impact on the underlying cash deficit, in the order of $7bn over the four years to 2025/26, spread broadly evenly across the years. We’ve rounded out this modest figure in our calculations - anticipating that in the October Budget the election promises will be fully funded (with the possibility of additional savings, if need be).

Speaking on October 15, the Prime Minister announced an eight-week increase to the Commonwealth’s parental leave scheme to deliver parents a total of six months’ paid leave. He described the Commonwealth’s scheme as a “baseline” and called upon the private sector to do more. Reports indicate that the extension of the Commonwealth’s scheme will be by 2026 and that the budget will include $500 million over the four years towards the extension of the scheme, but it could exceed $600 million a year once the change is in place by 2026.

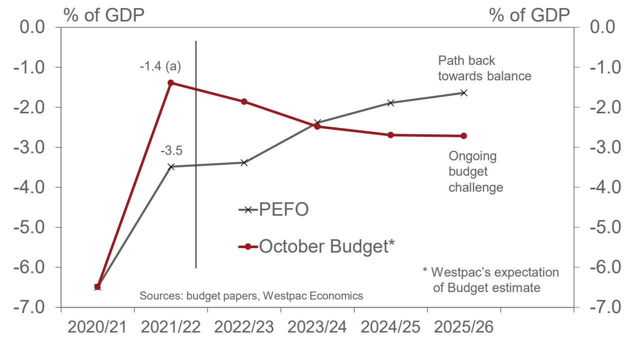
Infrastructure spending will be included in the October Budget - but with a likely net zero impact over the four years to 2025/26. The mantra is reprioritisation and re-profiling within existing infrastructure spending.

Labor’s election promises provided for $8.04bn in infrastructure spending over the 11 years to 2032/33 - as reported in the PBO’s costings. Key projects included $2.2bn for the Melbourne Suburban Rail Loop and $0.5bn for High-speed rail between Newcastle and Sydney.

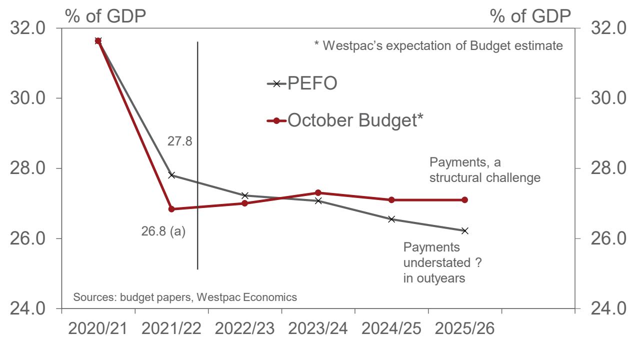
Recent reports indicate that the infrastructure package has swelled to $9.66bn, an additional $1.6bn - although the timing profile is unclear.

The PBO reported that over the four years to 2025/26, Labor’s infrastructure spending amounted to $5.24bn of the $8.04bn and this was all but fully funded by offsets. However, over

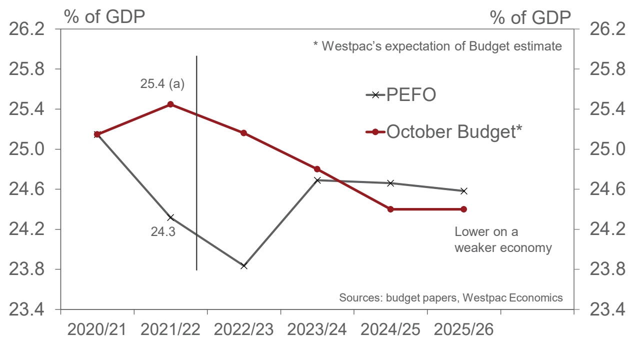
Budget deficit profile



Payments profile



Receipts profile



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

the following seven years, there is a net cost to the budget of $7.77bn, including $2.8bn of Labor's projects and $4.97bn from re-profiling (delaying) spending on existing infrastructure.

The October Budget is also an opportunity for the government to reprioritise expenditure dollars - over and above election commitments.

Beyond the election promises, there is the likelihood that the Budget will include some cost of living relief initiatives - targeted at the most vulnerable in our community.

Potentially, such measures could be funded by the scrapping of some programs of the previous government - possibly such as some regional policy initiatives.

Taken together, our figuring anticipates minimal net impact on the underlying cash deficit from new policy. In that way, the government can demonstrate that they are not adding to the challenge to tame inflation - while at the same time delivering on key measures.

In terms of the Stage 3 tax cuts, which are already legislated, we assume that the October Budget fiscal projections will continue to include this measure.

It may be that the newly elected government will engage in a debate, ahead of the May 2023 Budget, as to the merits of any possible reworking of the Stage 3 tax cuts.

The Stage 3 tax cuts commence on 1 July 2024. Recent costing by the PBO has the budget impact at $17.7bn in 2024/25. That lifts to $20.8bn in 2025/26, representing about 0.8% of GDP. The dollar cost rises by around a couple of billion a year, to be at an estimated $36.9bn in 2032/33 - with the cumulative cost over this nine year period at $243.5bn.

As to the impact of Labor election promises on the headline cash deficit, the PBO estimates that to be about $34bn greater than the impact on the underlying balance.

The commitments driving the difference are: Powering Australia, Rewiring the Nation; Help to Buy; National Reconstruction Fund; and Housing Australia Future Fund - which involve the use of balance sheet financing arrangements through increases in loans and equity investments. These programs have a funding requirement which impacts the headline cash budget balance and in turn impacts the government's borrowing requirements.

We have allowed for this additional budget pressure of $34bn in our figuring of the public debt profile.

Economic outlook: deteriorates

The economic outlook has deteriorated, in the face of higher inflation, higher interest rates and a weakening global economy.

On July 28, the Treasurer in a Ministerial Statement on the Economy to Parliament foreshadowed that the October Budget will mark down the profile for output growth from that in PEFO.

Since late July, conditions have deteriorated further - pointing to a sharper downgrade of the economic outlook, which will result in a still higher unemployment profile. In addition, this is associated with inflation staying higher for longer.

We anticipate that relative to July, the October Budget forecasts will differ for the 2023/24 year but be unchanged for the other years. For 2023/24, the changes relative to July will likely be: real GDP downgraded by 0.5% (to 1.5%), nominal GDP trimmed by 0.25% (to flat), inflation lifted by 0.75% (to 3.5%), and that when it comes to the unemployment rate, it will be lifted by 0.25% to 4.25% for 2023/24 and in the following two years is raised to 4.50%, up from the 4.25% expected in July.

Shifting the focus to the likely October Budget forecast profiles relative to PEFO, we envisage that real GDP growth for 2022/23 will be downgraded by 0.5% to 3.0% and for 2023/24 growth will be slashed by 1ppt to 1.5%. See table 1 for further details.

The unemployment rate profile mirrors the shifting economic fortunes. The sharp economic slowdown will see the unemployment rate lift to 4.25% (0.5% above that in PEFO), and then rise to 4.5% in 2024/25 and remain at that level in 2025/26 (also 0.5% above that in PEFO).

As to the size of the economy, nominal GDP, the growth profile is substantially stronger near-term. The forecast for 2022/23 will be upgraded by 4.75ppts to 5.25%, in the wake of a slight upside surprise in the outcome for 2021/22. Thereafter, the profile is weaker - the 2023/24 forecast is lowered by 3ppts and 2024/25 is marked down by 0.75ppts. So while the economy in 2022/23 is 5% larger than in PEFO, that gap narrows to 1.3% by 2025/26.

Notably, commodity prices have stayed higher for longer - such that the official forecasts will push back the timing of the anticipated correction in prices - with the usual approach that prices are assumed to move back towards more "normal levels". We anticipate that the October Budget will continue with the assumption that the iron ore price moves back from current levels to US$55/t fob.

Expenditures: upward pressures

A key theme of the October Budget will be the upward pressure on government expenditures. This will be evident from a lifting of the profile for payments - despite an improved starting point.

For the 2021/22 financial year, payments came in below expectations, at 26.8% of GDP, some 1.0ppt less than forecast. In dollar terms, the improvement was $20.3bn.

Reportedly, about $10bn of that undershoot was due to "delays" - with funding to be pushed out into subsequent years. Delays were around: covid related spending, including the procurement of vaccines and PPE; infrastructure spending, due to supply chain disruptions and industry constraints; and assistance to the states.

It is notable that during the 2021/22 year the monthly profile for payments showed a stabilisation in dollar terms, rather than a downward trend. The 2021/22 year can be split into two periods: the opening four months to November, the delta lockdown period, and the eight months to June, the reopening. While the monthly pace of receipts jumped between the two periods, payments broadly stabilised, down by only 1%.

The outlook for payments has deteriorated relative to PEFO for a number of reasons.

* spending slated for 2021/22 pushed out into subsequent years;
* higher price and wage inflation;
* higher interest rates, lifting debt servicing costs;
* weaker economic outlook, unemployment profile lifted;
* assumed under provisioning in the March Budget; and
* higher program costs.

<u>High inflation and higher interest rates</u>: While high wage and price inflation is a major positive for revenues, it is a negative for payments. Assistance payments are indexed to inflation and costs more generally will rise at a faster rate.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

Reports suggest that relative to PEFO, debt servicing costs will increase by $16bn over the four years to 2025/26, including a $7bn impact in 2025/26 - given higher 10 year bond yields.

Under provisioning: The incoming government is of the view that the previous government did not adequately provision for the ongoing funding requirements of some existing programs across the forward years. This may in part reflect sunset clauses for some programs and for which there is a general expectation that the program will continue.

Higher program costs: The incoming government suggests that the previous government has underestimated the likely cost of key and major programs - such as the NDIS and age care.

The five big growing areas of spending: The Treasurer has highlighted the five big areas of spending in the budget - which are "creating pretty substantial structural concerns". These are health, the NDIS, aged care, defence and the cost of servicing a trillion dollars in debt.

Much of this spending pressure has been known for some time and was included in the March Budget (see table on page 6).

In the March Budget, the BIG FIVE were estimated to cost $131bn in 2021/22, representing 21% of total outlays. They were projected to grow by 10% in 2022/23, with annual growth averaging 8% over the four years to 2025/26 - such that they would cost $179bn that year and account for 26% of total outlays. Expenditure growth across the rest of the budget was projected to be a benign 1.6% over the three years to 2025/26.

Relative to the March Budget and PEFO, the main source of upside from the BIG FIVE would appear to be on debt servicing (as discussed above) and the NDIS.

Reports suggest that the cost of the NDIS is now expected to rise "at above 12% a year for the next four years". That differs from the March Budget, which had a four year profile of: 16.2%; 10.3%; 8.7%; and 7.5%. If we assume then that growth is steady at 12.5% a year from 2022/23, then the additional dollar impact from the rising cost of the NDIS would be in the order of: $0.8bn for 2023/24; $2.4bn in 2024/25; lifting to $4.8bn in 2025/26.

We have attempted to allow for these cost pressures in our figuring - lifting payments across the five years to 2025/26 by around $78bn relative to PEFO (a figure which includes the $20bn downside surprise in the initial year, the outcome for 2021/22). For more detail, see table 2 above.

Upside in spending in 2022/23 reflects delays from the year prior plus the impact of higher inflation; in 2023/24 it is about persistent higher inflation and higher interest rates; then in 2024/25 and 2025/26 potentially higher program costs are a key source of upward pressure.

As a share of the economy, in our figuring, payments hold broadly steady at around 27.1% of GDP across the years 2023/24 to 2025/26.

This contrasts with PEFO, which had payments step-down from 27.1% of GDP in 2023/24 to be at 26.5% and then 26.2% in the following two year.

With payments holding at this elevated level, the budget deficit no longer narrows, as in PEFO, but instead is around 2.7% of GDP in the final two years of the forward estimates.

Revenues - 2021/22, a high water mark

The Australian economy overheated in 2021/22, contributing to the high inflation that the RBA is attempting to tame.

During 2021/22, the terms of trade hit a record high and the unemployment rate declined to a 50 year low, with the employment to population ratio at record levels. It is in this environment that revenues hit a high water mark.

Receipts came in at 25.4% of GDP in 2021/22, well above the PEFO forecast of 24.3%, an upside surprise of $27.6bn.

Beyond near-term strength, (nominal GDP growth is expected to expand by a robust 5.25% in 2022/23), revenue as a share of the economy is set to moderate – back towards more typical levels.

In our calculations, receipts are at an elevated level in 2022/23, at around 25.2% of GDP (the slight downside from the year prior reflects the carrying forward of losses) and then corrects to around 24.4% over the final two years of the forward estimates.

That has the end point a little lower than the 24.6% in PEFO - with the downside reflecting a higher unemployment rate and the drag from a larger carry forward of accumulated losses.

In the 2021/22 Final Budget Outcome it was noted that there was a one-off boost in revenues from a lower than expected take up of COVID business support measures. That boosts revenues in 2021/22 but will lower them in the out years compared to what was expected (because of the likely greater accumulation of deductions).

On our figuring, receipts are around $106bn higher over the five years to 2025/26.

As noted earlier, the upside revenue surprise is front loaded, with the $27.6bn higher outcome in 2021/22 and our projection of a $59.5bn upside in 2022/23.

Of that $59.5bn revenue surprise in 2022/23, about half is because the economy is $116bn larger than expected in PEFO and the government collects around one dollar in every four. The other half is because the tax share is more than 1ppt higher than projected and in a $2trillion plus economy 1% is worth $24bn.

The revenue surprise over the five years more that outweighs the $78bn increase in payments.

The upshot is a net improvement of the underlying cash deficit of about $27bn over the five years to 2025/26 *(note that the figure rounds to $27bn)*.

Or expressed differently, beyond the $47.9bn upside surprise in the budget outcome for 2021/22, there is a net deterioration in the budget position over the following four years of $21bn.

The public debt outlook

Gross debt for June 2022 came in at $895bn, 39.0% of GDP. That was about $11bn lower than in PEFO. This reduction is smaller than the improvement in the fiscal position as the AOFM maintained a smooth rate of bond issuance largely in line with Budget estimates. As a result, the AOFM has effectively pre-funded some of the 2022/23 financing task by accumulating cash reserves.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

Gross debt on our numbers climbs to around $1,176bn in June 2026, 44.3% of GDP. In dollar terms, that is $7bn higher than the PEFO projection (although, as a share of the economy it is a little lower, by 0.4%).

While our calculations point to a net $27bn improvement in the underlying cash deficit relative to PEFO, that is more than offset by the $34bn impact on the headline budget balance from Labor's election policies (as discussed above). These specific election promises - which are taken "off balance sheet" and do affect the underlying cash budget balance - still have funding requirements, with impacts on the headline cash budget balance and on public gross debt.

Net debt is considerably lower than gross debt. As at June 2022, net debt was $515.6bn, at a relatively modest 22.5% of GDP. That June 2022 outcome was well below the PEFO forecast of $631.5bn, 27.6% of GDP.

Net debt is measured by market value (whereas gross debt is measured by face value). The market price of bonds on issue fell substantially as yields rose. In addition, there was an accumulation of cash reserves. Together, these factors explained the larger surprise on net debt relative to that for the budget.

Bill Evans, Chief Economist
Andrew Hanlan, Senior Economist

Table: Expenses, impact of the BIG FIVE

	'21/22	'22/23	'23/24	'24/25	'25/26	Average	
March Budget							
Total expenses	639,569	628,469	643,833	665,369	686,839		
		–1.7	2.4	3.3	3.2	3.0	3yrs from 23/24
Defence	35,882	38,268	39,672	41,661	44,544		
		6.6	3.7	5.0	6.9	5.6	4 yrs
Interest payments	14,899	15,074	16,895	17,961	22,390		
		1.2	12.1	6.3	24.7	11.1	4 yrs
Hospitals	25,013	27,333	28,717	30,659	32,653		
		9.3	5.1	6.8	6.5	6.9	4 yrs
Aged care	24,551	27,770	30,083	31,432	33,010		
		13.1	8.3	4.5	5.0	7.7	4 yrs
NDIS	30,773	35,756	39,444	42,857	46,083		
		16.2	10.3	8.7	7.5	10.7	4 yrs
The BIG FIVE	131,118	144,201	154,811	164,570	178,680		
		10.0	7.4	6.3	8.6	8.1	4 yrs
Rest	508,451	484,268	489,022	500,799	508,159		
		–4.8	1.0	2.4	1.5	1.6	3yrs from 23/24

Source: budget papers, Westpac Economics

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

DISCLAIMER

© Copyright 2022 Westpac Banking Corporation

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 (‘Westpac’).

Disclaimer

This material contains general commentary only and is not intended to constitute or be relied upon as personal financial advice. To the extent that this material contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs, and because of this, you should, before acting on it, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, and, the disclosure documents (including any product disclosure statement) of any financial product you may consider. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a client of Westpac.

For XYLO Foreign Exchange clients: This information is provided to you solely for your own use and is not to be distributed to any third parties. XYLO Foreign Exchange is a division of Westpac Banking Corporation ABN 33 007 457 141 and Australian credit licence 233714. Information is current as at date shown on the publication. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. XYLO Foreign Exchange’s combined Financial Services Guide and Product Disclosure Statement can be obtained by calling XYLO Foreign Exchange on 1300 995 639, or by emailing customercare@XYLO.com.au.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited (“WNZL”). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Disclaimer continued overleaf

Disclaimer continued

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

I. Chinese Wall/Cell arrangements;

II. physical separation of various Business/Support Units;

III. Strict and well defined wall/cell crossing procedures;

IV. a “need to know” policy;

V. documented and well defined procedures for dealing with conflicts of interest;

VI. reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (‘WCM’), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.