BULLETIN

22 September 2023

Australian Federal Budget
Final Budget Outcome, 2022/23
Balance: +$22.1bn, +0.9% of GDP.
Surprise: $17.9bn above official forecast.

Budget overview
The Final Budget Outcome (FBO) for the 2022/23 Federal budget has been released.

As anticipated, the surplus for the 2022/23 financial year proved to be larger than the official estimate in the May 2023 Budget.

The surplus printed at $22.1bn for 2022/23, some $17.9bn above the $4.2bn May forecast. The more favourable outcome reflected the combination of higher revenue and lower outlays.

Outlays undershot the May Budget forecast by $4.0bn. The FBO report stating that this: "is largely driven by lower demand for some programs and reflects delays in some payments, due to ongoing market capacity constraints. Payments for a number of affected programs are expected to occur, instead, in 2023–24 and beyond".

Revenue collections were $13.9bn above expectations, almost entirely because of a $12.7bn upside on company taxes. This was primarily driven by higher collections from the resources sector, which benefited from sustained elevated commodity prices.

Budget to potentially remain in surplus in 2023/24
The Government's 2023 May Budget forecast that the budget position would revert to deficit in 2023/24.

However, as we (Bill Evans and Andrew Hanlan) discussed in our "Federal Budget in Focus" article, of August 4, the budget will potentially remain in surplus in 2023/24 – on current government policies.

The 2022/23 outcome of $22.1bn met our expectations for $22bn.

We estimated, that based on Westpac Economic forecasts, the surplus would narrow to $11bn in 2023/24, representing a $25bn upside surprise on the May Budget forecast of -$13.9bn.

On our figuring, the budget slips into deficit in 2024/25, to the tune of $16bn, representing a $19bn improvement on the May Budget forecast of -$35.1bn.

Over the three years 2022/23 to 2024/24, the budget position improves by $62bn relative to the government's May profile.

The key factor driving this more positive outlook is the inclusion of more constructive commodity price forecasts. The Federal Budget approach on commodity prices is overly cautious - factoring in "target prices" for key commodities which are on the low side.

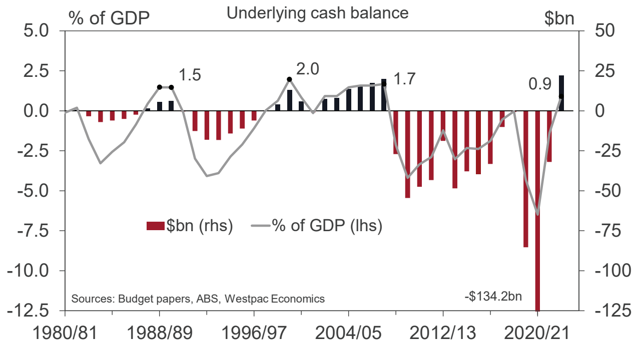
See the article from August Australian Federal Budget, in focus.

Budget in surplus for the first time in 15 years
The budget was last in surplus in 2007/08, at the end of the mining boom and prior to the GFC.

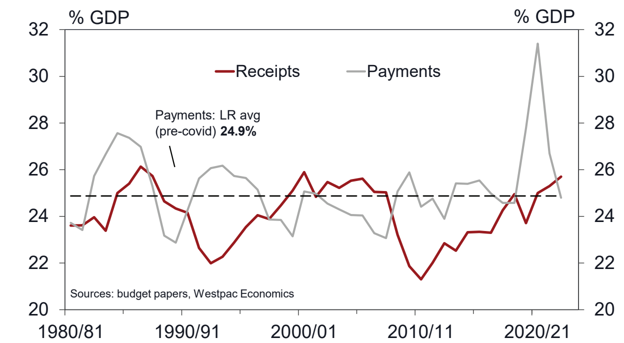
In 2007/08, the surplus was 1.7% of GDP ($17.2bn), while the surplus for 2022/23 was about half that, at 0.9% of GDP.

Peaks in the budget surplus in previous cycles were: 1999/00, 2.0%; 1988/89 and 1989/90, 1.5% of GDP; and 1970/71, 2.2% of GDP.

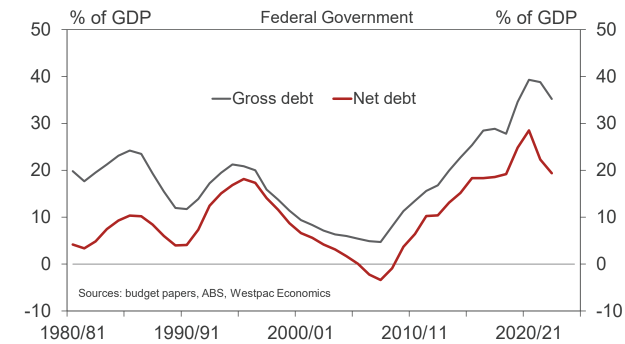
Federal budget, '22/23: +$22.1bn, 0.9% of GDP



Federal Budget: receipts and payments



Australian public debt



Revenue share, climbs to 3rd highest on record

While revenue collections came in above expectations it was associated with a downside surprise on nominal GDP.

Nominal GDP growth for 2022/23 was 9.7%, a little below the 10.25% May Budget forecast - with the terms of trade lower than expected as commodity prices eased somewhat.

Taken together, the revenue share of GDP was higher than the 25.0% expected, coming in at a very elevated 25.7% and up from 25.3% the year prior.

The revenue share of GDP in 2022/23 is the 3rd highest on record (for the past half century, dating back to 1970/71).

The peak revenue share was in 1986/87 (26.1% of GDP), followed by 2000/01 (25.9%). The 2022/23 result matches that in 1987/88.

Non-taxation receipts represented 1.9% of GDP in 2022/23, matching that in 2018/19, prior to the pandemic.

Taxation receipts represented 23.8% of GDP in 2022/23. That is below the mining boom peak of 24.2% in both 2004/05 and in 2005/06. During the period 2000/01 to 2005/06, the share was at or above 23.9% in 5 of the 6 years.

Outside of the six year period, 2000/01 to 2005/06, the taxation receipt share of GDP, at 23.8% in 2022/23, is higher than at any other time in the past half century.

Budget position - recovers from covid shock

It is worth highlighting that Australia's budget position has recovered from the covid shock. That the budget impacts from the pandemic have proven to be relatively temporary is a significant result.

The budget was in balance prior to the pandemic, with an outcome for 2018/19 of -$0.7bn, representing 0.0% of GDP.

Budget deficits were recorded for the following three years, to the tune of -4.3% of GDP, -6.4% of GDP and -1.4% of GDP.

Outlays as a share of the economy at 24.8% of GDP for 2022/23 is broadly in line with that for 2018/19, at 24.6%.

Revenue at 25.7% of GDP for 2022/23 is above that in 2018/19, at 24.9%. A record high for the terms of trade and a record high for the employment to population ratio have propelled revenue collections to current elevated levels.

Net debt shrinks, returning to pre-covid level

Australia's net debt position is at manageable levels, with a material downside surprise for 2022/23.

At the end of 2022/23, net debt was $491bn, some $57.6bn lower than the May forecast.

Net debt is measured by the *market value* of Australian Government securities on issue and includes selected financial assets.
(By contrast, gross debt is measured by *face value*.)

As a share of the economy, net debt represents 19.4% of GDP - the May Budget forecast was 21.6%. This extends the improvement of recent years - with the ratio down from the covid related peak in 2020/21, of 28.5%, and moderating from 22.3% in 2021/22.

Net debt to GDP at 19.4% is back in line with the level pre-pandemic, at 19.2% of GDP in 2018/19.

The *net* interest burden is the lowest in a decade, at 0.5% of GDP in 2022/23, matching that in 2012/13 and below that pre-covid, at 0.8% of GDP in 2018/19. (Net interest payments being the difference between interest paid and interest receipts).

For the net debt to GDP ratio to be back at the pre-covid level is a remarkable outcome given the extent of the shock. That has net debt levels at manageable levels and provides Australia with the fiscal flexibility to respond to future shocks.

Gross debt, some pre-funding of 2023/24 requirements

Gross debt at the end of 2022/23 was $889.8bn, some $2.8bn above the May forecast. That represents 35.2% of GDP, moderating from 38.8% the year prior and down from the 2020/21 peak of 39.3%.

Regarding gross debt, the FBO report states that: "while there has been a significant improvement in the underlying cash balance, the gross debt outcome is broadly in line with the estimate in the Budget".

"This reflects the Australian Office of Financial Management's (AOFM) decision not to deviate from the issuance guidance provided to the market following the Budget for the remainder of 2022–23. The combination of the improved underlying cash balance and AOFM's adherence to announced issuance plans effectively pre-funds some of the Government's financing requirement for 2023–24".

Interest paid as a share of the economy edged lower, from 0.8% in 2021/22 to 0.7% for 2022/23. That is the lowest share in 11 years, since 2011/12.

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