

Barton Deakin Brief: 2018 Mid-Year Economic and Fiscal Outlook**17.12.2018**

Today the Morrison Government delivered its Mid-Year Economic and Fiscal Outlook (MYEFO). Treasurer the Hon Josh Frydenberg MP and Senator the Hon Mathias Cormann, Minister for Finance, announced a reduced budget deficit for the 2018/19 financial year and an increased forecast budget surplus for 2019/2020. The strengthening budget position is attributed to increased employment figures and corporate tax receipts.

This Barton Deakin Brief summarises the key elements of the MYEFO announcement.

Budget Position

The underlying cash balance is forecast to reach a \$5.2 billion deficit at the end of 2018-19, an improvement from the \$14.5 billion deficit forecast in the May budget. This improvement means the Budget is expected to reach a surplus of \$4.1 billion in 2019-20, the first surplus since 2007-08.

The projected surplus over the forward estimates are expected to double from what was forecast in May.

	Projections in May 2018 Budget	Updated Projections
2018/19	-14.5 billion	-5.2 billion
2019/20	+2.2 billion	+4.1 billion
2020/21	+11 billion	+12.5 billion
2021/22	+16.6 billion	+19 billion

The improved fiscal position is a result of increased corporate and personal income tax receipts on the back of continued GDP growth, corporate profits, and reduced unemployment. Total tax receipts have been revised upward by \$8.3 billion in 2018-19, and by \$12.4 billion over the four years to 2021-22.

Economic Outlook

Real GDP is expected to grow across the forward estimates to continue to support employment growth, strengthening to 3% from 2019-20. This is expected to keep the unemployment rate steady at 5% across the forward estimates. Current economic growth is broad-based across household consumption, public demand, and non-mining business investment. Mining and services exports are also forecast to support continued growth.



Drought conditions are expected to have an impact on rural exports in 2018-19, and dwelling investments are expected to decline 2019/20 as construction activity unwinds. Global growth is expected to be 2.75% in 2019 and 2020, with 4% growth forecast for Australia's major trading partners.

The forecasts for the major economic parameters are laid out in the table below:

	2018/19	2019/20	2020/21	2021/22
Real GDP	2.75%	3%	3%	3%
Employment	1.75%	1.75%	1.5%	1.5%
Unemployment rate	5%	5%	5%	5%
Consumer price index	2%	2.25%	2.5%	2.5%
Wage price index	2.5%	3%	3.5%	3.5%
Nominal GDP	4.75%	3.5%	4.25%	4.25%

Major policy initiatives announced since the 2018 Budget

- The government has accelerated its tax-relief packages for small and medium-sized businesses following the abandonment of the full company tax cut. The package passed the Senate in October and affects 3.3 million small and medium-sized businesses at a total cost of \$3.2 billion over the forward estimates.
- The government is establishing a \$2 billion Australian Business Securitisation Fund, which will provide additional funding to small banks and non-bank lenders to lend to small businesses. The scheme has an initial cost of \$3 million in 2018-19 and \$2.7 million per year through to 2022.
- The Women's Economic Security Package will invest in measures to support women's workforce participation, earning potential, and economic independence. The total cost to the budget will be \$119.2 million over four years.
- The Government has announced an addition \$3.2 billion over ten years to support non-government schools, and \$1.2 billion to address targeted challenges in the non-government school sector such as supporting schools in drought affected areas.
- The Government will bring forward the release of 10,000 home care packages to provide more high level support to older Australians, and to provide additional support to Australians in residential care in regional, rural and remote areas, at a cost of \$453.9 million over four years from 2018-19.



- The Government has announced \$1.8 billion in assistance measures including concessional loans to support drought affected communities. The Future Drought Fund will provide a source of funding for future drought resilience, preparedness and recovery projects at a cost of \$3.9 billion that will grow to \$5 billion over time.
- The Government's reforms to the GST distribution system and top-up payments for states during the transition will come at a total cost of \$2.4 billion from 2019-20.
- An addition \$1.3 billion over four years from 2018-19 to establish the Community Health and Hospitals Program.
- \$1.4 billion in further listing to the Pharmaceutical Benefits Scheme.
- A package of initiatives which will build Australia's presence in the Pacific region, including the establishment of a \$2 billion Australian Infrastructure Financing Facility for the Pacific and an extra \$1 billion in a capital for Australia's export financing agency.

Further Information

To read the full MYEFO document, click [here](#).

To read Treasurer the Hon Josh Frydenberg MP and Senator the Hon Mathias Cormann's media release, click [here](#).

For more information, please contact [David Alexander](#) on 0457 400 524, [Grahame Morris](#) on 0411 222 680, or [Robert Bower](#) on 0430 036 667.