

Barton Deakin Brief: Mid-Year Economic and Fiscal Outlook

17 December 2013

Today the Treasurer, the Hon. Joe Hockey MP, and the Finance Minister, the Hon. Mathias Cormann MP, released the mid-year economic and fiscal outlook (“**MYEFO**”). The figures reveal a \$47 billion deficit in 2013-14, which is equal to 3% of Gross Domestic Product (“**GDP**”).

MYEFO reveals a \$123 billion deficit over the forward estimates. The forecasts for budget deficits over the next four years are:

- 2013/14 - \$47 billion
- 2014-15 - \$34 billion
- 2015-16 - \$24 billion
- 2016-17 - \$17.7 billion

The deficit was expected to be closer to \$30 billion. MYEFO attributes the \$17 billion deterioration in the budget position since the pre-election fiscal outlook (“**PEFO**”) to two key factors:

1. the softer economic outlook; and
2. steps taken to address unresolved issues inherited from the former government.

Softer economic outlook

The softer economic outlook accounts for a projected decrease in revenue, and for increased spending on unemployment benefits.

- Gross National Debt will reach \$460 billion within the next four years, and is projected to rise to \$667 billion over the next decade without budgetary reform.
- Although the economy is expected to transition from resources-investment led growth to non-resources sector growth, the fall in resources sector growth is expected to be sharper than previously forecast, and the recovery in the non-resources sector is expected to be more gradual.
- Real GDP is forecast to grow at 2.5% per annum in 2014-15, compared to the projection of 3% per annum in PEFO. Economic growth is forecast to remain below 3% per annum for the next two years.
- The unemployment rate is projected to continue to rise to 6.25%. In recent economic updates a reversion to the trend rate of 5% unemployment had been assumed, which led to an underestimate of the cost of unemployment benefits.



Steps to address unresolved issues from the former government

The following measures account for increases in Federal Government spending:

- strengthening the Reserve Bank of Australia's capacity to withstand future shocks through additional recapitalisation (\$8.8 billion);
- funding offshore processing of illegal maritime arrivals (\$1.2 billion);
- restoring education funding for 'Students First' (\$1.2 billion);
- Commonwealth provisioning in the Contingency Reserve and removing the backlog of around 100 announced, but unlegislated, tax and superannuation measures (\$2.9 billion); and
- funding eight infrastructure projects that were previously forecast to be funded from the former Government's Regional Infrastructure Fund (\$995.7 million).

The Government is committed to returning the budget to sustainable surpluses of at least 1% of GDP by 2023-24.

The Treasurer will outline the Government's medium term fiscal strategy in the 2014-15 Federal Budget, which will include an infrastructure package to promote economic growth.

To read MYEFO in full, please [click here](#).

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