



Deficit on track, but surplus in 2012/13 is hard work

Monthly Budget Update

- **Budget improving.** The underlying budget deficit for the twelve months to March stood at \$38.25 billion. Over the same period the fiscal balance stood at a deficit of \$43.35 billion and the headline budget deficit was \$44.5 billion.
- **Revenues growing.** Annual growth of budget revenues stands at 10.8 per cent, down from 11.3 per cent in January which was the fastest growth in three years. Annual growth of expenses is 4.7 per cent.
- **On track to meet forecasts.** The Mid Year Economic and Fiscal Outlook statement projected a budget deficit of \$37.1 billion for 2011/12 and budget surplus of \$1.5 billion for 2012/13. At present the rolling annual budget deficit is only slightly above the Government's full year target for this year.
- **GST receipts near target.** Receipts from the Goods and Services Tax stood at \$49.1 billion in the twelve months to March, up 2.9 per cent on a year ago. The Government projects GST receipts of \$49.75 billion in 2011/12, an increase of 3.4 per cent on the previous year.
- **Ready reckoner:** CommSec has compiled a ready reckoner highlighting the difficulty in achieving a budget surplus in 2012/13. To achieve a small budget surplus in 2012/13, the Government will probably need to find extra savings of \$4-5 billion and then revenues would need to rise more than 11 per cent with expenses flat.

What does it all mean?

- On current figuring the Government will go close to achieving its goal of a budget deficit just over \$37 billion this financial year, representing just over 2.5 per cent of GDP. But a budget surplus next financial year will require

BUDGET READY RECKONER

Assume: 2011/12 Expenses \$370.09 billion; Receipts \$332.977 billion

Forecast: 2012/13 Expenses \$370.069 billion (-0.01%); Receipts \$374.559 billion (+11.3%)

		Revenue growth									
		-4	-2	0	2	4	6	8	10	12	14
Expenses growth	-4	-\$35.6	-\$29.0	-\$22.3	-\$15.6	-\$9.0	-\$2.3	\$4.3	\$11.0	\$17.6	\$24.3
	-2	-\$43.0	-\$36.4	-\$29.7	-\$23.1	-\$16.4	-\$9.7	-\$3.1	\$3.6	\$10.2	\$16.9
	0	-\$50.4	-\$43.8	-\$37.1	-\$30.5	-\$23.8	-\$17.1	-\$10.5	-\$3.8	\$2.8	\$9.5
	2	-\$57.8	-\$51.2	-\$44.5	-\$37.9	-\$31.2	-\$24.5	-\$17.9	-\$11.2	-\$4.6	\$2.1
	4	-\$65.2	-\$58.6	-\$51.9	-\$45.3	-\$38.6	-\$31.9	-\$25.3	-\$18.6	-\$12.0	-\$5.3
	6	-\$72.6	-\$66.0	-\$59.3	-\$52.7	-\$46.0	-\$39.3	-\$32.7	-\$26.0	-\$19.4	-\$12.7
	8	-\$80.0	-\$73.4	-\$66.7	-\$60.1	-\$53.4	-\$46.7	-\$40.1	-\$33.4	-\$26.8	-\$20.1
	10	-\$87.4	-\$80.8	-\$74.1	-\$67.5	-\$60.8	-\$54.1	-\$47.5	-\$40.8	-\$34.2	-\$27.5
	12	-\$94.8	-\$88.2	-\$81.5	-\$74.9	-\$68.2	-\$61.5	-\$54.9	-\$48.2	-\$41.6	-\$34.9
	14	-\$102.2	-\$95.6	-\$88.9	-\$82.3	-\$75.6	-\$68.9	-\$62.3	-\$55.6	-\$49.0	-\$42.3

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hard work and perhaps some accounting gymnastics.

- The main issue is revenue as a slower economy is drying up tax receipts. In terms of the Department of Finance profile, revenue is currently around \$2 billion short of where it needed to be for March 2012, while expenses are also short by \$0.4 billion. Underlying cash receipts are around \$3.1 billion short according to the profile while underlying cash payments are over by \$700 million.
- GST receipts are holding up though. In the year to March GST receipts stand at \$49.1 billion, down from the record \$49.55 billion in the year to February and just short of the full year 2011/12 forecast, so there is no need for angst by State and Territory governments.

CommSec Budget Ready Reckoner

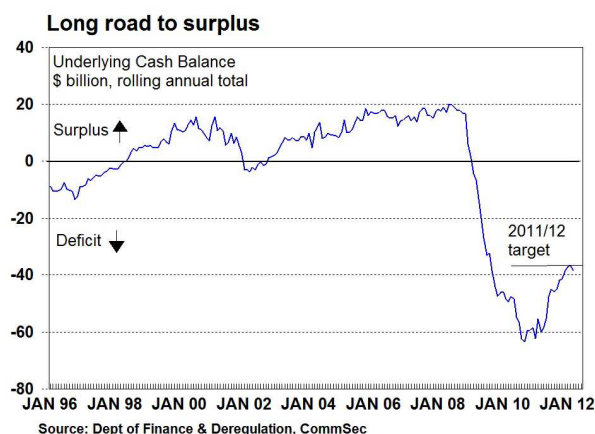
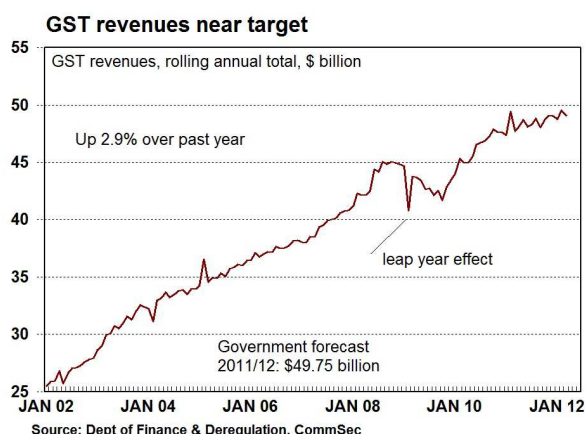
- The CommSec Budget Ready Reckoner assumes a “no change” situation: The Government is assumed to meet its budget forecast this year, there are no changes to economic assumptions (parameters) and we assume the forecasts in the Mid Year Budget review. On this basis revenues (largely taxes) would need to rise by 11.3% and expenses (spending) would need to fall 0.1% to achieve a surplus.
- But there are other combinations to achieve a surplus. For instance, if revenues grew by just 10 per cent, then expenses would need to fall by 1.5 per cent to achieve a surplus.
- But all things may not be equal. If there are less favourable economic assumptions about the coming financial year (as Commonwealth Bank group economists expect), the Government may need an extra \$4-5 billion in savings to achieve small budget surplus. That is, these savings would be required in addition to the already heady metrics to achieve a budget surplus of significant revenue growth and flat growth in spending (expenses)."
- The Government has already outlined cuts in defence spending for 2012/13. Further budget cuts, spending delays or accounting gymnastics may be required to achieve an adjunct surplus for 2012/13. The economy would need to accelerate markedly to maintain revenue growth near 11 per cent over 2012/13 while much discipline would be required on spending.

What do the figures show?

- In the twelve months to March, budget revenue stood at \$331.0 billion, up 10.8 per cent on a year ago. Over the same period, expenses stood at \$369.7 billion, up 4.7 per cent on a year ago. Annual growth of revenue is just short of the fastest rate in three years (11.3 per cent in January 2012). Expenses have been averaging annual growth near 4 per cent over the past 18 months.
- The underlying budget deficit for the twelve months to March stood at \$38.25 billion, up from \$36.55 billion in the year to February which was the smallest deficit in 30 months. For the same period the fiscal balance stood at a deficit of \$43.35 billion and the headline budget deficit was \$44.5 billion.
- The Mid Year Economic and Fiscal Outlook statement projected a budget deficit of \$37.1 billion for 2011/12 and a budget surplus of \$1.5 billion for 2012/13. The same statement projected the fiscal balance to be in a deficit of \$32.4 billion in 2011/12 and in surplus by \$4.7 billion in 2012/13.
- Receipts from the Goods and Services Tax stood at \$49.1 billion in the twelve months to March, up 2.9 per cent on a year ago. The Government projects GST receipts of \$49.75 billion in 2011/12, an increase of 3.4 per cent on the previous year.

What is the importance of the economic data?

- The Department of Finance and Deregulation release the **Government Financial Statement (Niemeyer**



Statement) almost every month. The statement allows investors to track the current budget position and provides insights into the effectiveness of fiscal policy.

What are the implications for interest rates and investors?

- The Government is fixated on achieving a budget surplus in 2012/13. The goal of balancing the budget is right, but it is the urgency and timing that have to be questioned.
- It all gets down to the maths. Our budget ready reckoner shows what is required to achieve a surplus on unchanged economic settings. But the economy appears set to grow at a slower pace than expected with inflation also slower than expected. That means significant savings would have to be identified on top of double digit revenue growth and austerity-type spending. Australia just doesn't need to get back into surplus at all costs.
- The Government can rightly take credit on the Budget. It is moving in the right direction and it is committed to achieving further progress. But as other countries have found out, the aim should be economic growth combined with fiscal discipline, not merely the latter.

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