

FISCAL DEVELOPMENTS IN THE STATES

Most States are expected to record net operating surpluses in 2007-08 and over the forward estimates. After allowing for capital investment, most States are expected to record fiscal deficits in 2007-08 and over the forward estimates. As a consequence, net debt of the States is expected to rise from \$10.7 billion in 2005-06 to \$67.0 billion in 2009-10.

This section provides an overview of fiscal developments in the States. It provides context to the discussion of the Australian Loan Council in the next section.

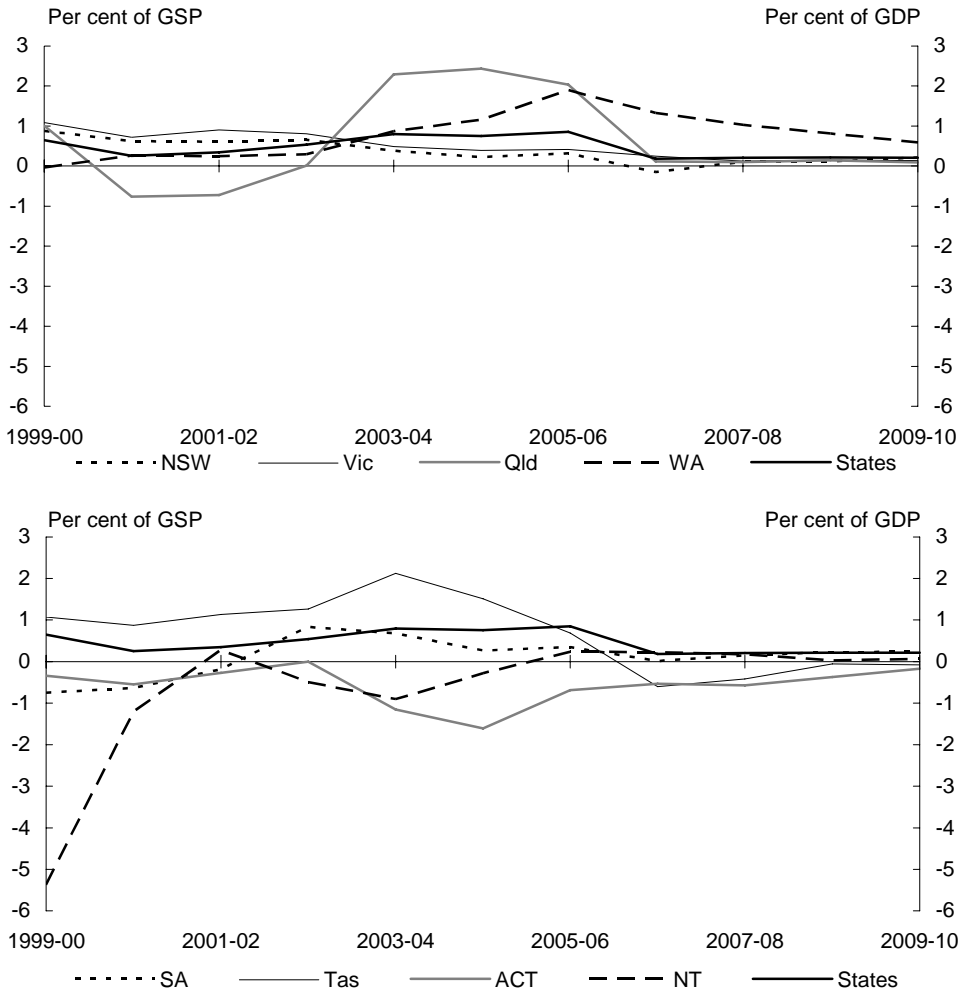
STATE GENERAL GOVERNMENT SECTOR NET OPERATING BALANCE

The aggregate state general government sector net operating position is expected to be a small surplus in 2007-08, broadly in line with 2006-07 as a proportion of GDP (Chart 7). The significant fall in States' operating balances, compared with 2005-06, largely reflects the impact of higher expenditures and slower revenue growth.

The net operating balance measures, in accrual terms, the gap between a government's expenses and revenue for a given period. It provides a good indication of the sustainability of the existing level of government services. An operating surplus indicates that a government can finance the services it provides in a period using revenues derived in that period. An operating deficit indicates that a government must borrow or sell assets in order to finance services provided in a period.

Tasmania and the Australian Capital Territory expect to record operating deficits in 2007-08 and over the forward years.

Chart 7: Individual state general government sector net operating balance^(a)



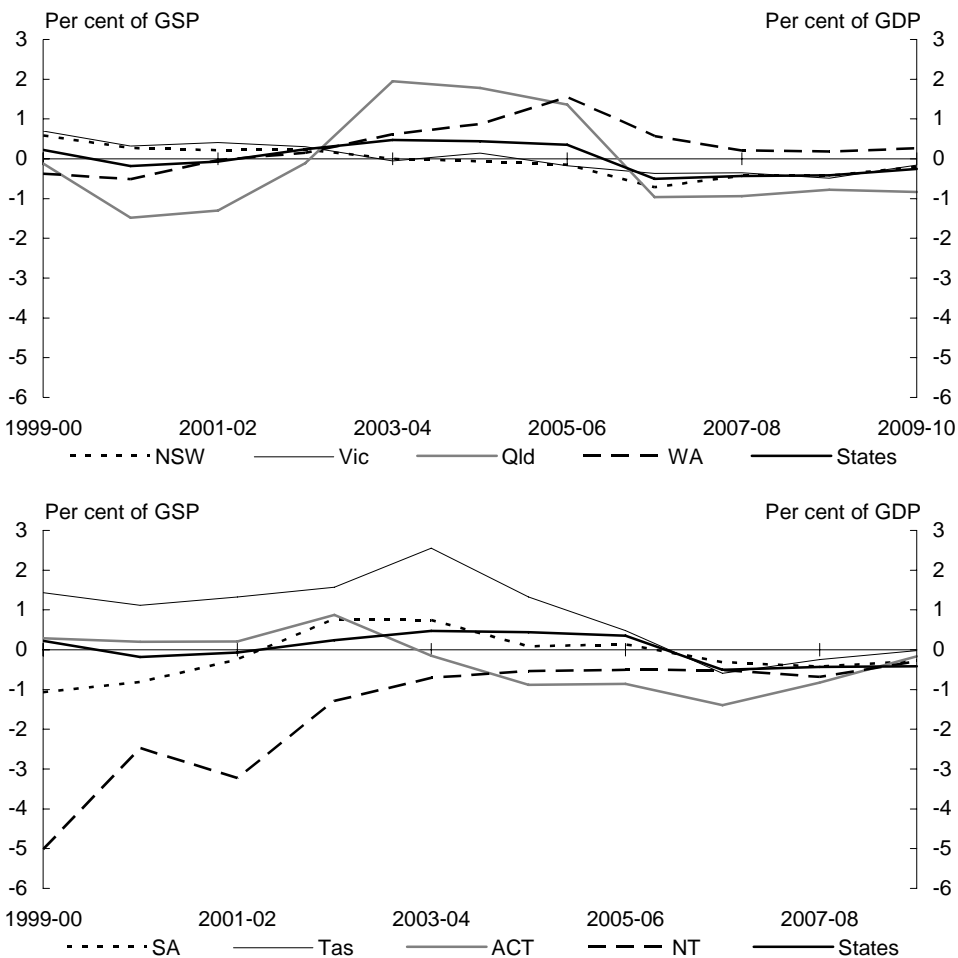
(a) States' net operating balances are expressed as a percentage of Gross State Product (GSP) (left hand axis) and the States' aggregate net operating balance is expressed as a percentage of Gross Domestic Product (GDP) (right hand axis).

Sources: ABS cat. no. 5512.0, State 2006-07 mid-year reports, Northern Territory and Victoria 2007-08 Budgets and Treasury estimates.

STATE GENERAL GOVERNMENT SECTOR FISCAL BALANCE

The aggregate state fiscal balance for the general government sector is estimated to be in deficit by 0.4 per cent of GDP in 2007-08 (Chart 8). Given the aggregate state operating balance is expected to be a small surplus in 2007-08, the aggregate state fiscal deficit arises from the funding of capital expenditure. The aggregate fiscal balance is expected to be in deficit over the forward years. Western Australia is the only State expected to have a fiscal surplus in 2007-08 and in the forward years, reflecting its large operating surpluses.

Chart 8: Individual state general government sector fiscal balance^(a)



(a) States' fiscal balances are expressed as a percentage of GSP (left hand axis) and the States' aggregate fiscal balance is expressed as a percentage of GDP (right hand axis).

Sources: ABS cat. no. 5512.0, State 2006-07 mid-year reports, Northern Territory and Victoria 2007-08 Budgets and Treasury estimates.

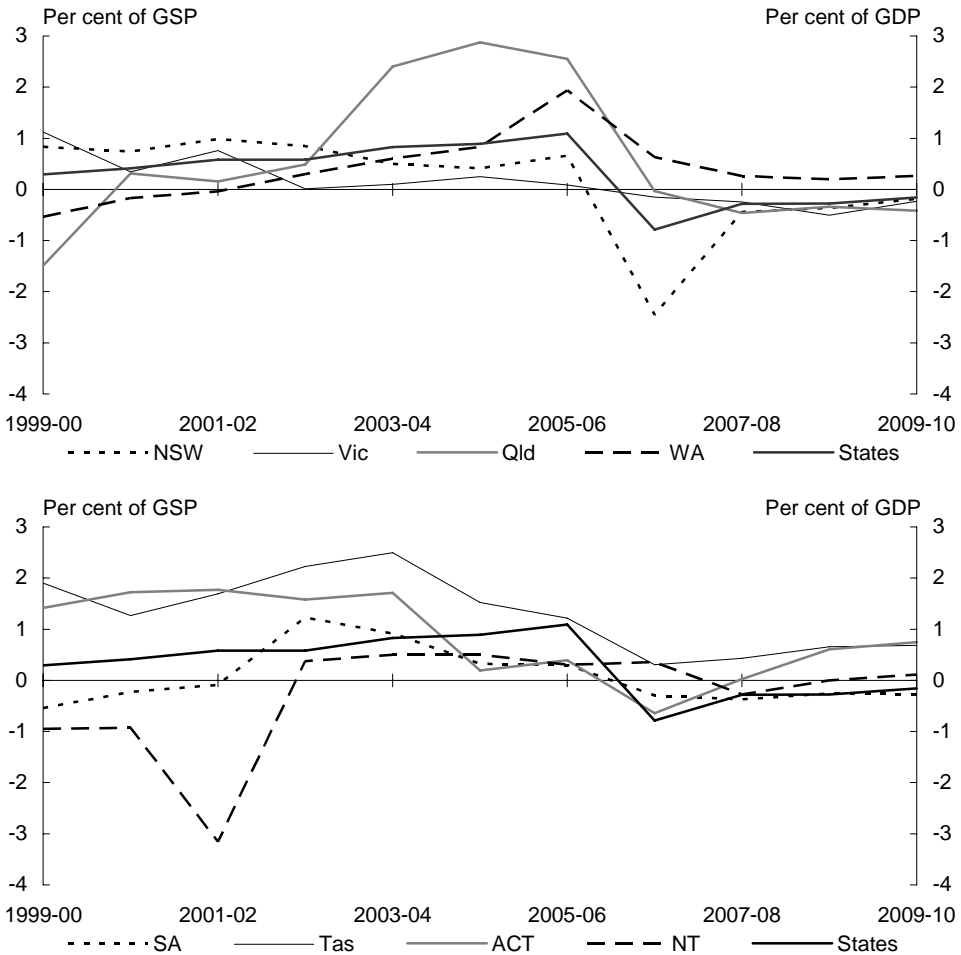
The fiscal balance measures, in accrual terms, the gap between government savings plus net capital transfers, and investment in non-financial assets. A fiscal surplus indicates that a government is lending to other sectors. A fiscal deficit indicates that a government is borrowing.

Trends in the aggregate fiscal balance for the State/local general government, public non-financial corporations and non-financial public sectors are presented in Tables 1, 2 and 3 of Statement 12 in Budget Paper No. 1.

STATE GENERAL GOVERNMENT SECTOR CASH BALANCE

Similar to the fiscal balance, most States expect to record cash deficits in 2007-08 (Chart 9), reflecting funding of capital expenditure. The New South Wales general government sector moved into a cash deficit in 2006-07, although the recorded cash deficit in 2006-07 was substantially affected by a one-off contribution of \$7.2 billion from the general government Liability Management Fund towards the defined benefits superannuation scheme. In aggregate, the general government sector cash position is expected to be a deficit of 0.3 per cent of GDP in 2007-08, compared to a 0.8 per cent deficit the previous year. The aggregate general government sector cash deficit is expected to continue over the forward years.

Chart 9: Individual state general government sector cash balance^(a)



(a) States' cash balances are expressed as a percentage of GSP (left hand axis) and the States' aggregate cash balance is expressed as a percentage of GDP (right hand axis). Sources: ABS cat. no. 5512.0, State 2006-07 mid-year reports, Northern Territory and Victoria 2007-08 Budgets and Treasury estimates.

A cash surplus reflects the extent to which cash is available to a government to increase financial assets or decrease liabilities (assuming no revaluations or other changes occur). A cash deficit measures the extent to which a government requires cash, either by running down financial assets or by borrowing.

Trends in the aggregate cash surplus for the State/local general government, public non-financial corporations and the non-financial public sectors are presented in Chart 2 of Statement 12 in Budget Paper No. 1.

STATE NET DEBT

Most States are forecasting an increase in general government sector net debt in 2007-08 and the forward years as they borrow to finance significant capital expenditure programmes (Chart 10). Queensland, Western Australia, Tasmania and the Australian Capital Territory are the only States to forecast a net debt position below zero in 2007-08 and the forward years.

Net debt is the sum of selected financial liabilities (deposits held, advances received, government securities, loans and other borrowing) less the sum of selected financial assets (cash and deposits, advances paid, and investments, loans and placements). Net debt does not include superannuation related liabilities.

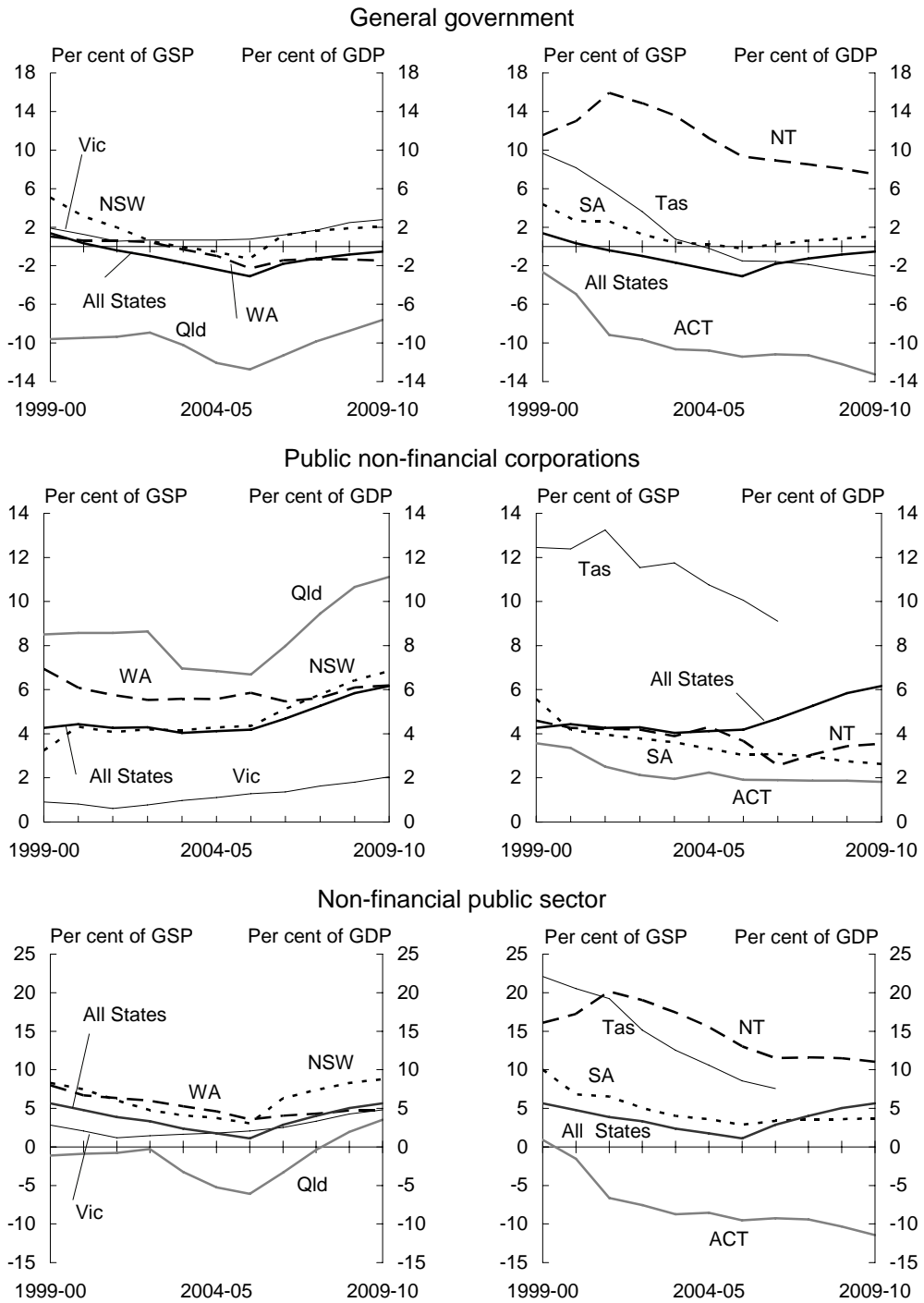
The higher the net debt of a government, the greater the call that will be imposed on the government's future revenue flows to service that debt.

In aggregate, the state general government sector continues to record net debt levels below zero. Its net debt is expected to be -1.3 per cent of GDP in 2007-08, falling to -0.5 per cent of GDP by 2009-10.

Net debt for the aggregate state public non-financial corporations sector is estimated to be 4.7 per cent of GDP in 2006-07, up from 4.2 per cent in 2005-06. The public non-financial corporations sector owns nearly all of the stock of state non-financial public net debt.

In aggregate, net debt of the state total non-financial public sector (which combines general government and public non-financial corporations) will increase from 1.1 per cent of GDP in 2005-06 to 5.7 per cent in 2009-10, an increase of \$56.4 billion.

Chart 10: Individual state net debt by sector (as at end of financial year)^(a)



(a) States' net debt is expressed as a percentage of GSP (left hand axis) and the States' aggregate net debt is expressed as a percentage of GDP (right hand axis).

Sources: ABS cat. no. 5512.0, State 2006-07 mid-year reports, Northern Territory and Victoria 2007-08 Budgets and Treasury estimates.

