

PART 4: FISCAL STRATEGY AND OUTLOOK

THE GOVERNMENT'S MEDIUM-TERM FISCAL STRATEGY

The Government's fiscal strategy was set out in the 2008-09 Budget. The fiscal strategy aims to ensure fiscal sustainability over the medium term. This provides the necessary flexibility for the budget balance to vary in line with economic conditions.

The key elements of the Government's medium-term fiscal strategy, as set out in the 2008-09 Budget, are:

- achieving budget surpluses, on average, over the medium term;
- keeping taxation as a share of GDP on average below the level for 2007-08; and
- improving the Government's net financial worth over the medium term.

The 2008-09 Budget was delivered at a time when strong countervailing forces were affecting the economic outlook.

The fiscal strategy for the 2008-09 Budget year was for a budget surplus of at least 1.5 per cent of GDP; to 'bank' rather than spend revisions to tax receipts; and to reorient spending and taxation arrangements so that new spending was fully offset by savings. This was designed to allow the automatic stabilisers to work.

The Government recognised the risks of deterioration in world economic conditions, and acted prudently to deliver a strong surplus – an important buffer against future uncertainties.

A strong surplus was required in the 2008-09 Budget in order to:

- bear down on the inflationary pressures in the economy by reducing public demand;
- provide funding through current and future budget surpluses for future capital investment in the infrastructure, education, health and hospital needs of the nation; and
- ensure a strong financial position at a time of heightened uncertainty in the international economy.

During September and October it became clear that the flow-through of global financial market developments to the economy was going to be much more severe than previously anticipated.

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Accordingly, the Government has responded to these developments by adapting its fiscal policy settings for the 2008-09 Budget year by:

- allowing the 'automatic stabilisers' – the tendency for both revenue and spending to vary in line with economic conditions – to support economic stability;
- targeting a discretionary fiscal stimulus of about 1 per cent of GDP at areas of weakness in domestic demand; and
- maintaining a strong fiscal position, including by continuing to budget for a surplus, in order to provide flexibility to adapt the fiscal stance as needed.

The adapted fiscal policy settings for 2008-09 are consistent with the medium-term fiscal strategy. The surplus has been drawn down to help strengthen the Australian economy during the global financial crisis. The Government has delivered a \$10.4 billion discretionary fiscal stimulus, and it will allow the automatic stabilisers to operate to support the economy across the forward estimates.

Automatic stabilisers

A key element in the Government's medium-term fiscal strategy is that the budget balance should be able to vary in the short term in line with economic conditions.

The change in the economic outlook since the 2008-09 Budget has implications for both the revenue and expenditure sides of the budget; the revised parameters have lowered forecast revenue and raised forecast expenses. Were the Government to offset these variations it would be contributing to – rather than leaning against – the macroeconomic instability caused by the global financial crisis.

Instead, by allowing the 'automatic stabilisers' of the budget to operate, the Government's fiscal policy is playing an important complementary role to monetary policy in stabilising the economy from the effects of the global economic downturn.

Targeted discretionary fiscal stimulus

One of the reasons for maintaining a surplus when economic conditions are strong is to allow space for fiscal policy to support demand when conditions weaken.

Over the past two months the Reserve Bank of Australia (RBA) has shifted to a significantly less restrictive monetary policy stance and the exchange rate has depreciated sharply.

While the monetary policy response to changed global conditions will continue to be determined independently by the RBA, discretionary fiscal policy can play a complementary role.

With the growing prospect of a deep and prolonged global economic downturn there is a strong case for discretionary fiscal policy, particularly targeted at those areas of growing weakness in domestic demand.

Accordingly, the Government has taken action to strengthen the economy and support households during the global financial crisis by implementing an Economic Security Strategy, of around 1 per cent of GDP focused on 2008-09.

The package specifically bolsters recent weaker growth in household consumption and housing, and provides much-needed assistance to Australian pensioners and families.

Fiscal discipline: boosting productive capacity

The Government has maintained a strong fiscal position, with the budget remaining well positioned to respond to the global financial crisis.

The Economic Security Strategy continues the Government's strategy of focusing ongoing expenditure on building the productive capacity of the economy.

The creation of new training opportunities will assist the labour force to adapt to more challenging economic conditions.

The Government is also accelerating the implementation of its nation building agenda to strengthen the economy.

FISCAL OUTLOOK

The Australian Government's underlying cash surplus for 2008-09 is estimated to be \$5.4 billion, \$16.3 billion lower than the 2008-09 Budget estimate. In accrual terms, a fiscal surplus of \$5.8 billion is estimated for 2008-09. The fiscal outlook is for continuing underlying cash and fiscal surpluses over the forward estimates notwithstanding the deterioration in the global economy since the 2008-09 Budget.

The escalation in the severity of the global financial crisis and associated weaker global economic outlook has seriously impacted on the fiscal outlook, with variations in both receipts and expenditure substantially reducing the underlying cash and fiscal surpluses since the 2008-09 Budget. Altogether, parameter revisions have resulted in a decline in the underlying cash balance of \$5.2 billion in 2008-09 (see Table 4.3) and in the fiscal balance of \$5.8 billion in 2008-09 (see Table 4.6). The weaker economic outlook is responsible for almost all of the downward revisions to taxation receipts of around \$5 billion in 2008-09 and \$12 billion in 2009-10.

The magnitude of the crisis was such as to prompt a significant fiscal stimulus. That stimulus package was the major factor explaining the decrease in the underlying cash

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balance from policy decisions in 2008-09. Since the 2008-09 Budget, total policy decisions in 2008-09 have decreased the underlying cash balance by \$11.1 billion (see Table 4.3) and the fiscal balance by \$11.5 billion (see Table 4.6).

Beyond 2008-09, almost all of the deterioration is due to the operation of the automatic stabilisers. Discretionary fiscal policy has had little impact. The automatic stabilisers have led to an increase in expenditure, particularly over the forward estimates, however these movements are less significant than the changes to receipts.

Table 4.1: Australian Government general government sector budget aggregates^(a)

	Estimates ^(b)			
	2008-09		2009-10	
	Budget	MYEFO	Budget	MYEFO
Revenue (\$b)	319.5	313.3	336.9	324.3
Per cent of GDP	25.9	25.7	26.2	25.9
Expenses (\$b)	292.5	303.6	310.5	311.7
Per cent of GDP	23.8	24.9	24.2	24.8
Net operating balance (\$b)	27.0	9.6	26.4	12.6
Net capital investment (\$b)	3.9	3.8	4.1	5.5
Fiscal balance (\$b)	23.1	5.8	22.4	7.1
Per cent of GDP	1.9	0.5	1.7	0.6
Underlying cash balance (\$b)(c)	21.7	5.4	19.7	3.6
Per cent of GDP	1.8	0.4	1.5	0.3
<i>Memorandum item:</i>				
Headline cash balance (\$b)	23.6	7.1	20.9	5.5
	Projections			
	2010-11		2011-12	
	Budget	MYEFO	Budget	MYEFO
Revenue (\$b)	350.9	336.6	366.9	355.5
Per cent of GDP	26.2	25.7	26.1	26.1
Expenses (\$b)	323.1	324.3	339.2	339.8
Per cent of GDP	24.1	24.8	24.1	24.9
Net operating balance (\$b)	27.8	12.3	27.7	15.8
Net capital investment (\$b)	4.5	5.6	5.1	5.7
Fiscal balance (\$b)	23.3	6.7	22.6	10.1
Per cent of GDP	1.7	0.5	1.6	0.7
Underlying cash balance (\$b)(c)	19.0	2.6	18.9	6.7
Per cent of GDP	1.4	0.2	1.3	0.5
<i>Memorandum item:</i>				
Headline cash balance (\$b)	20.5	4.5	20.5	8.5

(a) Budget estimates, including the per cent of GDP, are as published in *Budget Paper No. 1, Budget Strategy and Outlook 2008-09*.

(b) For the 2008-09 MYEFO, 2009-10 has moved from a projection to an estimates year.

(c) Excludes expected Future Fund earnings.

Cash flows

In 2008-09, an underlying cash surplus of \$5.4 billion is expected, compared with the Budget estimate of \$21.7 billion. A headline cash surplus of \$7.1 billion is forecast for 2008-09 compared with a surplus of \$23.6 billion at the 2008-09 Budget. The lower headline cash surplus largely reflects the decrease in the underlying cash balance.

Table 4.2 provides a summary of Australian Government general government sector cash flows.

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Table 4.2: Summary of Australian Government general government sector cash flows

	Estimates			
	2008-09		2009-10	
	Budget	MYEFO	Budget	MYEFO
Cash receipts (\$b)				
Operating cash receipts				
excluding Future Fund earnings	309.0	303.2	326.6	313.3
Future Fund earnings	3.5	3.6	3.2	3.1
<i>Total operating receipts</i>	312.5	306.8	329.8	316.4
Capital cash receipts(a)	0.5	0.5	0.3	0.3
Total cash receipts	313.0	307.3	330.1	316.7
Cash payments (\$b)				
Operating cash payments	278.5	289.0	297.8	298.9
Capital cash payments(b)	8.8	8.8	9.5	11.1
Total cash payments	287.3	297.8	307.3	310.0
Finance leases and similar arrangements (\$b)(c)	-0.5	-0.5	0.0	0.0
GFS cash surplus(+)/deficit(-) (\$b)	25.2	9.0	22.8	6.7
Per cent of GDP	2.0	0.7	1.8	0.5
less Future Fund earnings (\$b)	3.5	3.6	3.2	3.1
Underlying cash balance (\$b)(d)	21.7	5.4	19.7	3.6
Per cent of GDP	1.8	0.4	1.5	0.3
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes (\$b)	-1.5	-1.9	-2.0	-1.2
plus Future Fund earnings (\$b)	3.5	3.6	3.2	3.1
Headline cash balance (\$b)	23.6	7.1	20.9	5.5
	Projections			
	2010-11		2011-12	
	Budget	MYEFO	Budget	MYEFO
Cash receipts (\$b)				
Operating cash receipts				
excluding Future Fund earnings	340.1	326.0	355.4	344.2
Future Fund earnings	3.3	3.1	3.4	3.0
<i>Total operating receipts</i>	343.4	329.0	358.8	347.3
Capital cash receipts(a)	0.3	0.3	0.2	0.2
Total cash receipts	343.7	329.4	359.0	347.5
Cash payments (\$b)				
Operating cash payments	311.4	312.3	326.7	326.8
Capital cash payments(b)	10.0	11.4	10.0	10.9
Total cash payments	321.4	323.6	336.7	337.8
Finance leases and similar arrangements (\$b)(c)	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-) (\$b)	22.3	5.7	22.3	9.7
Per cent of GDP	1.7	0.4	1.6	0.7
less Future Fund earnings (\$b)	3.3	3.1	3.4	3.0
Underlying cash balance (\$b)(d)	19.0	2.6	18.9	6.7
Per cent of GDP	1.4	0.2	1.3	0.5
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes (\$b)	-1.8	-1.2	-1.8	-1.2
plus Future Fund earnings (\$b)	3.3	3.1	3.4	3.0
Headline cash balance (\$b)	20.5	4.5	20.5	8.5

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.

(b) Equivalent to cash payments for purchases of new and second-hand non-financial assets in the cash flow statement.

(c) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.

(d) Excludes expected Future Fund earnings.

Variations to the underlying cash balance estimates

The downward revision to the underlying cash balance in 2008-09 since Budget reflects a decrease of \$5.8 billion in receipts (excluding Future Fund earnings) and an increase in cash payments of \$10.6 billion.

The 2008-09 underlying cash balance is lower than estimated at the 2008-09 Budget by \$16.3 billion, while the fiscal balance decreased by \$17.3 billion compared to the Budget estimate.

Table 4.3 provides a reconciliation of the variations in the underlying cash balance estimates.

Table 4.3: Reconciliation of general government underlying cash balance estimates

	Estimates		Projections	
	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
2008-09 Budget underlying cash balance	21,703	19,669	18,996	18,870
Changes from 2008-09 Budget to MYEFO				
Effect of policy decisions(a)	-11,093	-1,634	-966	-810
Effect of parameter and other variations	-5,244	-14,440	-15,390	-11,371
Total variations	-16,337	-16,074	-16,357	-12,181
2008-09 MYEFO underlying cash balance(b)	5,365	3,595	2,640	6,689

(a) Excludes the public debt net interest effect of policy measures.

(b) Excludes expected Future Fund earnings.

Since the 2008-09 Budget, total policy decisions in 2008-09 have decreased the underlying cash balance by \$11.1 billion (see Table 4.3). This is made up of \$9.7 billion as part of the Economic Security Strategy and \$1.4 billion in other decisions. Policy decisions have reduced receipts by \$100 million or less in each year across the forward estimates. Total policy decisions have decreased the fiscal balance by \$11.5 billion (see Table 4.6). The difference primarily reflects the timing impacts of government decisions. In particular, the Economic Security Strategy – one-off lump sum payment of \$1,000 per child to low income families – decreases the underlying cash balance by \$3.5 billion in 2008-09, but decreases the 2008-09 fiscal balance by \$3.9 billion.

Since the 2008-09 Budget, total parameter and other variations have decreased the underlying cash balance by \$5.2 billion in 2008-09 (see Table 4.3) and the fiscal balance by \$5.8 billion in 2008-09 (see Table 4.6).

Revisions to total receipts, excluding Future Fund earnings, have reduced the underlying cash balance by \$5.8 billion in 2008-09 and by \$13.3 billion in 2009-10. These downward revisions almost entirely reflect the impact of the global financial crisis and its consequences for the expected economic outlook over the forward estimates period.

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The global financial crisis has particularly affected taxation receipts, through a number of channels:

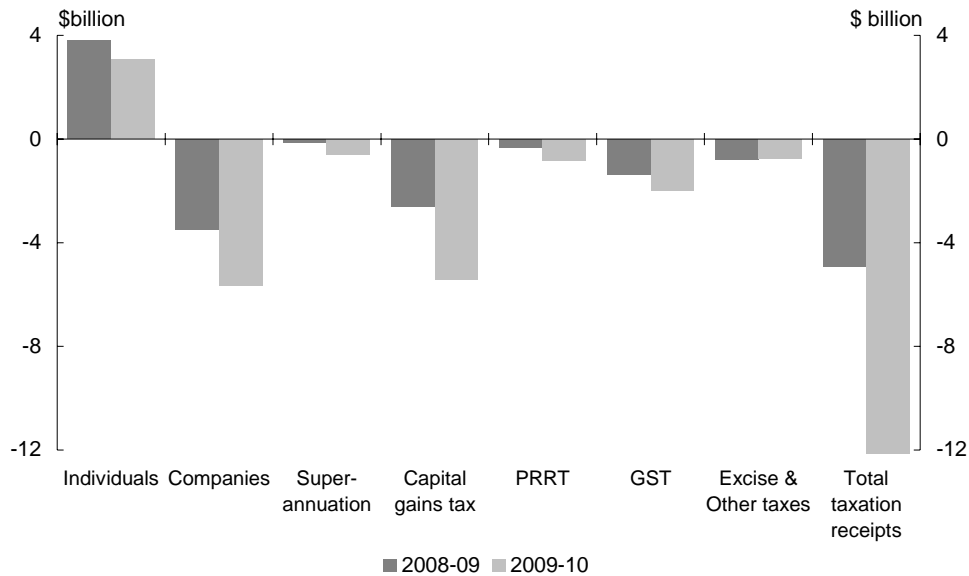
- recent dramatic falls in the value of global equity markets, affecting capital gains tax (CGT), which is a component of company, superannuation fund and individuals income taxes;
- slower consumption growth following the sharp decline in consumer confidence and tighter credit conditions affecting GST and income tax from companies and unincorporated business;
- falling terms of trade in 2009-10 affecting company tax; and
- reductions in oil prices, affecting petroleum resource rent tax (PRRT).

The largest revisions have been made to company tax (down \$4.2 billion in 2008-09 and \$7.7 billion in 2009-10), GST (down \$1.4 billion in 2008-09 and \$2.0 billion in 2009-10), superannuation fund income tax (down \$0.5 billion in 2008-09 and \$1.2 billion in 2009-10), and PRRT (down \$0.3 billion in 2008-09 and \$0.8 billion in 2009-10).

Notably, the largest revenue head, gross income tax withholding (ITW), has grown solidly ahead of budget expectations through early 2008-09 and so has been revised up in both 2008-09 and 2009-10. The forecast weakening in the labour market since Budget is expected to partly offset the higher collections by moderating future growth in ITW.

The revisions to revenue since Budget are illustrated in Chart 4.1. The chart includes a separate estimate of the total revision to CGT, with the revisions to individuals, company and superannuation taxes shown *excluding* CGT.

Chart 4.1: Revisions to tax receipts since the 2008-09 Budget



Source: Treasury estimates

Total payment parameter and other variations have increased the underlying cash balance by \$0.4 billion in 2008-09, which is largely consistent with the estimated increase in the fiscal balance of \$0.3 billion in 2008-09 from expenses and net capital investment. Further details in variations in expenses and net capital investments can be found later in this part.

Payment parameter and other variations have increased the underlying cash balance by \$0.4 billion in 2008-09 and decreased the underlying cash balance by \$1.2 billion in 2009-10, primarily reflecting:

- the impact of the lower GST payments to the States in 2008-09 of \$1.4 billion and \$2.0 billion in 2009-10 reflecting a lower estimate of GST receipts; offset by
- the impact of revised economic parameters, most notably relating to unemployment benefit recipients and foreign exchange movements, increasing payments for various programs by \$0.7 billion in 2008-09 and \$2.4 billion in 2009-10, and a reprogramming of a range of Defence capital projects of \$0.3 billion into 2009-10.

Table 4.4: Australian Government general government sector receipts — 2008-09

	2008-09		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes(a)				
Gross income tax withholding	116,530	118,800	2,270	1.9
Gross other individuals	29,950	30,460	510	1.7
less: Refunds	22,010	22,600	590	2.7
Total individuals and other withholding taxation	124,470	126,660	2,190	1.8
Fringe benefits tax	4,020	3,790	-230	-5.7
Superannuation funds	9,730	9,280	-450	-4.6
Company tax	71,720	67,520	-4,200	-5.9
Petroleum resource rent tax	2,630	2,320	-310	-11.8
Income taxation receipts	212,570	209,570	-3,000	-1.4
Sales taxes				
Goods and services tax	45,368	43,988	-1,380	-3.0
Wine equalisation tax	670	680	10	1.5
Luxury car tax	580	560	-20	-3.4
Other sales taxes	0	0	0	0.0
Total sales taxes	46,618	45,228	-1,390	-3.0
Excise duty				
Petrol	6,840	6,500	-340	-5.0
Diesel	6,860	6,950	90	1.3
Other fuel products	1,210	1,340	130	10.7
Crude oil	1,050	810	-240	-22.9
Beer	1,910	1,960	50	2.6
Potable spirits	190	210	20	10.5
Other excisable beverages(b)	1,430	990	-440	-30.8
Tobacco	5,550	5,660	110	2.0
Total excise duty receipts	25,040	24,420	-620	-2.5
Customs duty				
Textiles, clothing and footwear	990	990	0	0.0
Passenger motor vehicles	1,050	1,010	-40	-3.8
Excise-like goods	2,540	2,660	120	4.7
Other imports	1,550	1,550	0	0.0
less: Refunds and drawbacks	380	380	0	0.0
Total customs duty receipts	5,750	5,830	80	1.4
Other indirect taxation				
Agricultural levies	595	592	-2	-0.4
Other taxes	2,071	2,107	35	1.7
Total other indirect taxation receipts	2,666	2,699	33	1.2
Indirect taxation receipts	80,074	78,178	-1,897	-2.4
Taxation receipts	292,644	287,748	-4,897	-1.7
Sales of goods and services	5,694	5,823	129	2.3
Dividends	4,637	3,238	-1,399	-30.2
Interest received	5,865	5,540	-325	-5.5
Other non-taxation receipts	4,121	4,958	838	20.3
Non-taxation receipts(c)	20,316	19,559	-757	-3.7
Total receipts(c)	312,961	307,307	-5,654	-1.8

(a) Includes Medicare levy estimates of \$8,570 million at MYEFO.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

(c) Includes Future Fund earnings.

Table 4.5: Australian Government general government sector receipts — 2009-10

	2009-10		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes(a)				
Gross income tax withholding	123,230	124,946	1,716	1.4
Gross other individuals	30,100	29,710	-390	-1.3
less: Refunds	23,130	24,080	950	4.1
Total individuals and other withholding taxation	130,200	130,576	376	0.3
Fringe benefits tax	4,100	4,030	-70	-1.7
Superannuation funds	10,430	9,210	-1,220	-11.7
Company tax	78,670	70,930	-7,740	-9.8
Petroleum resource rent tax	3,380	2,540	-840	-24.9
Income taxation receipts	226,780	217,286	-9,494	-4.2
Sales taxes				
Goods and services tax	48,365	46,385	-1,980	-4.1
Wine equalisation tax	680	700	20	2.9
Luxury car tax	610	590	-20	-3.3
Other sales taxes	0	0	0	0.0
Total sales taxes	49,655	47,675	-1,980	-4.0
Excise duty				
Petrol	6,760	6,390	-370	-5.5
Diesel	7,100	7,230	130	1.8
Other fuel products	1,380	1,520	140	10.1
Crude oil	1,060	770	-290	-27.4
Beer	1,960	2,030	70	3.6
Potable spirits	190	220	30	15.8
Other excisable beverages(b)	1,610	1,100	-510	-31.7
Tobacco	5,590	5,710	120	2.1
Total excise duty receipts	25,650	24,970	-680	-2.7
Customs duty				
Textiles, clothing and footwear	760	730	-30	-3.9
Passenger motor vehicles	830	780	-50	-6.0
Excise-like goods	2,710	2,800	90	3.3
Other imports	1,610	1,610	0	0.0
less: Refunds and drawbacks	380	380	0	0.0
Total customs duty receipts	5,530	5,540	10	0.2
Other indirect taxation				
Agricultural levies	398	356	-42	-10.5
Other taxes	2,136	2,164	28	1.3
Total other indirect taxation receipts	2,534	2,520	-14	-0.5
Indirect taxation receipts	83,368	80,705	-2,664	-3.2
Taxation receipts	310,148	297,990	-12,158	-3.9
Sales of goods and services	5,913	6,025	112	1.9
Dividends	3,863	3,511	-352	-9.1
Interest received	6,381	5,384	-998	-15.6
Other non-taxation receipts	3,790	3,782	-7	-0.2
Non-taxation receipts(c)	19,946	18,701	-1,245	-6.2
Total receipts(c)	330,095	316,692	-13,403	-4.1

(a) Includes Medicare levy estimates of \$8,870 million at MYEFO.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

(c) Includes Future Fund earnings.

Variations to the fiscal balance estimates

The downward revision in the fiscal balance of \$17.3 billion in 2008-09 since Budget reflects a decrease of \$6.2 billion in revenue, an increase in expense of \$11.2 billion and a decrease in net capital investment of \$0.1 billion.

Table 4.6 provides a reconciliation of the fiscal balance estimates.

Table 4.6: Reconciliation of general government fiscal balance estimates(a)

	Estimates		Projections	
	2008-09	2009-10	2010-11	2011-12
	\$m	\$m	\$m	\$m
2008-09 Budget fiscal balance	23,122	22,357	23,316	22,587
Per cent of GDP	1.9	1.7	1.7	1.6
Changes between 2008-09 Budget and MYEFO				
Effect of policy decisions(b)				
Revenue	-100	-87	-23	0
Expenses	11,413	1,172	743	842
Net capital investment	2	91	76	-21
Total policy decisions impact on fiscal balance	-11,514	-1,350	-842	-821
Effect of parameter and other variations				
Revenue	-6,114	-12,488	-14,286	-11,382
Expenses	-258	58	456	-297
Net capital investment	-90	1,338	1,018	598
Total parameter and other variations impact on fiscal balance	-5,766	-13,884	-15,761	-11,682
2008-09 MYEFO fiscal balance	5,842	7,123	6,713	10,085
Per cent of GDP	0.5	0.6	0.5	0.7

(a) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

(b) Excludes the public debt net interest effect of policy measures.

Variations in revenue estimates

The fragility of the global financial system has been a feature of the outlook for the past year or so. However, the marked deterioration in recent months and the recognition that its flow on effects on economic activity and incomes, both domestically and overseas, was going to be much more severe than previously anticipated, has required a significant reassessment in the outlook for revenue since the 2008-09 Budget.

As a consequence, estimated total revenue has been revised down in 2008-09 by \$6.2 billion and in 2009-10 by \$12.6 billion. These reductions have primarily come through lower capital gains, company and goods and services taxes.

Policy measures have only had a small effect on revenue since the Budget, reducing revenue by \$100 million in 2008-09 and \$87 million in 2009-10. Major policy decisions (taken up to and including 28 October 2008) affecting revenue over the four year period 2008-09 to 2011-12 include:

- modifications to the 2008-09 Budget measure increasing the Medicare levy surcharge (MLS) thresholds, increasing revenue by \$300 million over the forward estimates period;
- variations to the temporary residents' superannuation measure originally announced in the *2007-08 Mid-Year Economic and Fiscal Outlook*, reducing revenue by \$253 million over the forward estimates period;
- changes to prescribed private funds (PPFs), with 148 new funds approved as PPFs and three declared no longer to be PPFs, reducing revenue by \$131 million over the forward estimates period;
- extending eligibility for the exemption from interest withholding tax to bonds issued in Australia by State and Territory central borrowing authorities, reducing revenue by \$64 million over the forward estimates period; and
- introducing a 'fuel efficient car limit' that provides a higher luxury car tax threshold for cars with a fuel consumption of 7 litres per 100 kilometres or less with effect from 3 October 2008, reducing revenue by \$39 million over the forward estimates period.

A full list of revenue measures announced since the 2008-09 Budget is provided at Appendix A.

Detailed Australian Government general government sector revenue estimates for 2008-09 and 2009-10, compared with the estimates published in the 2008-09 Budget, are provided in Tables 4.7 and 4.8, respectively.

Table 4.7: Australian Government general government sector revenue — 2008-09

	2008-09		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes(a)				
Gross income tax withholding	117,410	119,680	2,270	1.9
Gross other individuals	31,300	31,620	320	1.0
less: Refunds	22,010	22,600	590	2.7
Total individuals and other withholding taxation	126,700	128,700	2,000	1.6
Fringe benefits tax	4,110	3,870	-240	-5.8
Superannuation funds	9,750	9,270	-480	-4.9
Company tax	73,490	68,990	-4,500	-6.1
Petroleum resource rent tax	2,920	2,400	-520	-17.8
Income taxation revenue	216,970	213,230	-3,740	-1.7
Sales taxes				
Goods and services tax	46,900	45,490	-1,410	-3.0
Wine equalisation tax	680	690	10	1.5
Luxury car tax	580	560	-20	-3.4
Other sales taxes	0	0	0	0.0
Total sales taxes	48,160	46,740	-1,420	-2.9
Excise duty				
Petrol	6,970	6,630	-340	-4.9
Diesel	6,860	6,950	90	1.3
Other fuel products	1,210	1,340	130	10.7
Crude oil	1,060	820	-240	-22.6
Beer	1,910	1,960	50	2.6
Potable spirits	190	210	20	10.5
Other excisable beverages(b)	1,430	990	-440	-30.8
Tobacco	5,550	5,660	110	2.0
Total excise duty revenue	25,180	24,560	-620	-2.5
Customs duty				
Textiles, clothing and footwear	990	990	0	0.0
Passenger motor vehicles	1,450	1,410	-40	-2.8
Excise-like goods	2,540	2,660	120	4.7
Other imports	1,560	1,562	2	0.1
less: Refunds and drawbacks	240	240	0	0.0
Total customs duty revenue	6,300	6,382	82	1.3
Other indirect taxation				
Agricultural levies	595	592	-2	-0.4
Other taxes	2,031	2,123	93	4.6
Total other indirect taxation revenue	2,625	2,716	90	3.4
Indirect taxation revenue	82,265	80,397	-1,868	-2.3
Taxation revenue	299,235	293,627	-5,608	-1.9
Sales of goods and services	5,699	5,803	104	1.8
Dividends	4,637	3,238	-1,399	-30.2
Interest received	6,041	6,114	73	1.2
Other non-taxation revenue	3,852	4,468	616	16.0
Non-taxation revenue(c)	20,229	19,623	-606	-3.0
Total revenue(c)	319,464	313,250	-6,214	-1.9

(a) Includes Medicare levy estimates of \$8,570 million at MYEFO.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

(c) Includes Future Fund earnings.

Table 4.8: Australian Government general government sector revenue — 2009-10

	2009-10		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes(a)				
Gross income tax withholding	124,180	125,996	1,816	1.5
Gross other individuals	31,500	31,060	-440	-1.4
less: Refunds	23,130	24,080	950	4.1
Total individuals and other withholding taxation	132,550	132,976	426	0.3
Fringe benefits tax	4,190	4,110	-80	-1.9
Superannuation funds	10,450	9,210	-1,240	-11.9
Company tax	80,770	72,900	-7,870	-9.7
Petroleum resource rent tax	3,470	2,660	-810	-23.3
Income taxation revenue	231,430	221,856	-9,574	-4.1
Sales taxes				
Goods and services tax	49,960	48,090	-1,870	-3.7
Wine equalisation tax	690	710	20	2.9
Luxury car tax	610	590	-20	-3.3
Other sales taxes	0	0	0	0.0
Total sales taxes	51,260	49,390	-1,870	-3.6
Excise duty				
Petrol	6,890	6,520	-370	-5.4
Diesel	7,100	7,230	130	1.8
Other fuel products	1,380	1,520	140	10.1
Crude oil	1,070	770	-300	-28.0
Beer	1,960	2,030	70	3.6
Potable spirits	190	220	30	15.8
Other excisable beverages(b)	1,610	1,100	-510	-31.7
Tobacco	5,590	5,710	120	2.1
Total excise duty revenue	25,790	25,100	-690	-2.7
Customs duty				
Textiles, clothing and footwear	760	730	-30	-3.9
Passenger motor vehicles	1,160	1,110	-50	-4.3
Excise-like goods	2,710	2,800	90	3.3
Other imports	1,620	1,622	2	0.1
less: Refunds and drawbacks	240	240	0	0.0
Total customs duty revenue	6,010	6,022	12	0.2
Other indirect taxation				
Agricultural levies	398	356	-42	-10.5
Other taxes	2,070	2,192	122	5.9
Total other indirect taxation revenue	2,467	2,547	80	3.2
Indirect taxation revenue	85,527	83,059	-2,468	-2.9
Taxation revenue	316,957	304,914	-12,043	-3.8
Sales of goods and services	5,898	6,021	123	2.1
Dividends	3,863	4,011	148	3.8
Interest received	6,511	5,697	-814	-12.5
Other non-taxation revenue	3,691	3,702	10	0.3
Non-taxation revenue(c)	19,963	19,430	-532	-2.7
Total revenue(c)	336,920	324,345	-12,575	-3.7

(a) Includes Medicare levy estimates of \$8,870 million at MYEFO.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

(c) Includes Future Fund earnings.

Part 4: Fiscal strategy and outlook

The significant downward revisions to revenue have been driven almost entirely by the impact of the global financial crisis and its consequences for the expected economic outlook over the forward estimates period. The parameter and other variations discussed in this section represent revisions to expected revenue driven by recent economic outcomes and tax collections, and the updated economic outlook and explicitly exclude the impact of new policy decisions

The revenue estimates are based on the forecasts and projections of economic activity presented in Part 3. Revenue estimates for 2009-10 are now based on economic forecasts for that year whereas they were based on projections at the 2008-09 Budget. Revenue estimates for the current projection years – 2010-11 and 2011-12 – include the assumption that the prices of key non-rural commodities will fall further from their forecast levels in 2009-10.

The key economic parameters that influence revenue are shown in Table 4.9. The table shows effects on the Australian Government's main tax bases of the changed economic circumstances since the 2008-09 Budget. Growth in nominal non-farm GDP has been revised down by more than 1 percentage point in 2008-09 and 2009-10, with the growth rates for most of the other key revenue parameters being revised down in both years as well.

Table 4.9: Key revenue parameters^(a)

	Outcome	Forecasts		Projections	
	2007-08	2008-09	2009-10	2010-11	2011-12
	%	%	%	%	%
Revenue parameters at 2008-09 MYEFO					
Nominal gross domestic product (non-farm)	8.0	7.8	2.8	4 1/4	4 1/4
<i>Change since Budget</i>	0.3	-1.1	-1.5	0	-1
Compensation of employees (non-farm)(b)	7.6	5.8	4.8	5 1/4	5 1/4
<i>Change since Budget</i>	-0.3	-0.4	-0.5	0	0
Corporate gross operating surplus(c)	8.3	13.5	-4.5	1 1/2	1 1/2
<i>Change since Budget</i>	2.1	-2.9	-6.5	0	-3 3/4
Unincorporated business income (non-farm)	4.7	2.0	3.8	5 1/4	5 1/4
<i>Change since Budget</i>	-1.9	-2.1	-1.5	0	0
Property income(d)	21.4	11.0	5.8	5 1/4	5 1/4
<i>Change since Budget</i>	6.4	-1.3	0.5	0	0
Consumption subject to GST	6.4	3.5	2.5	5 1/4	5 1/4
<i>Change since Budget</i>	-0.8	-1.9	-2.8	0	0

(a) Current prices, per cent change on previous year.

(b) Compensation of employees measures total remuneration earned by employees.

(c) Corporate GOS is the National Accounts measure of company profits.

(d) Property income measures income derived from rent, dividends and interest.

As a result of the revisions to the economic and financial outlook, parameter and other variations have reduced revenue across the forward estimates since the 2008-09 Budget, contributing a decrease of \$6.1 billion in 2008-09 and \$12.5 billion in 2009-10.

Expected CGT revenue has been revised down significantly since Budget following large falls in equity prices over recent months – the S&P ASX 200 index traded under 4000 points in late October compared with around 5500 points in early May. These falls in equity prices since the Budget are likely to affect CGT for several years, reducing revenue by nearly \$3½ billion in 2008-09 and at least \$6 billion in 2009-10, with larger falls in the projection years. These falls are partly offset by revisions to the estimate of the CGT outcome in 2007-08, which is now estimated to have peaked at almost \$20 billion in 2007-08, around \$2½ billion higher than assumed at Budget. CGT is expected to reach a trough of just under \$12 billion in 2009-10.

Company tax in 2008-09 is expected to be \$4.5 billion lower than the 2008-09 Budget estimate, reflecting the flow-on effect of the lower than expected outcome in 2007-08 and a weaker 2008-09 forecast of corporate gross operating surplus (GOS). Weaker revenues are expected particularly from those companies affected by credit markets and financial asset price falls, by higher import prices from the depreciation in the Australian dollar and by weaker consumption.

Estimated company tax in 2009-10 has been revised downwards by \$7.8 billion because of a range of factors. Corporate GOS is now expected to contract in 2009-10, representing a large downward revision to the growth rate since the Budget driven by falling terms of trade (as commodity prices fall). In addition, weaker expectations for corporate net interest income (primarily due to the weaker outlook for credit growth) and capital gains income reduce company tax.

Gross income tax withholding (ITW) revenue is expected to be \$2.3 billion higher in 2008-09 as collections through late 2007-08 and early 2008-09 have been well ahead of budget-time expectations, reflecting employment growth being stronger than expected to the end of the September quarter. The growth rate in ITW is expected to moderate over the remainder of 2008-09 in line with weaker compensation of employees forecasts (owing to slightly weaker employment and wages forecasts). ITW has been revised up by \$1.8 billion in 2009-10, with the flow-on affect of the higher 2008-09 estimate being partly offset by weaker compensation of employee forecasts.

Gross other individuals' revenue is forecast to increase by around \$300 million since Budget as higher than expected incomes, including from capital gains, relating to the 2006-07 income year continued to generate higher revenues in the early part of 2008-09. The other individuals' estimate has been revised down by around \$500 million in 2009-10 due to lower forecast growth rates for income from capital gains, unincorporated businesses, interest and dividends.

Refunds from individuals are expected to increase by around \$600 million in 2008-09 and \$900 million in 2009-10 due to a stronger than expected employment growth in 2007-08 (more taxpayers typically generate greater aggregate refunds) and lower capital gains income.

Part 4: Fiscal strategy and outlook

In the 2008-09 Budget, the Government made a provision for its aspirational tax goals in 2011-12. The Government said that achieving its aspirational tax goals 'will depend on economic conditions and the need to maintain fiscal responsibility'. Given the dramatic deterioration in the global economic outlook and associated increased uncertainty, the provision will no longer be maintained. The Government will reconsider the policy parameters following an improvement in overall economic conditions.

The Government remains committed to comprehensive reform of the tax system. The Australia's Future Tax System review is due to deliver its findings late next year and the Government's response will follow.

Superannuation funds tax revenue has been revised down by around \$400 million in 2008-09 and \$1.2 billion in 2009-10, reflecting weakness in capital gains and other investment earnings and lower contributions (from both employers and employees as labour markets weaken). The recent falls in equity prices are expected to lead to significantly lower capital gains income and increases in capital losses.

Estimated revenue from petroleum resource rent tax (PRRT) has decreased by \$500 million in 2008-09 due to greater than expected production disruptions and falling oil prices. In 2009-10, PRRT is expected to decrease by around \$800 million due to lower forecast oil prices (down A\$21 per barrel since Budget).

GST revenue in 2008-09 has been revised down by \$1.4 billion since Budget, reflecting lower forecast growth for taxable consumption and private dwelling investment, although this has been supported by the Government's fiscal stimulus package announced on 14 October. In 2009-10, GST revenue is forecast to be lower by \$1.9 billion, with the expected further slowing in growth of consumption, partly offset by stronger growth in private dwelling investment (including in response to additional assistance through the First Home Owners Boost and lower interest rates).

In 2008-09 and 2009-10, revenue from excise and customs duty has been revised down by around \$500 million and \$700 million, respectively, partly reflecting downward revisions to expected consumption growth affecting a range of imports and excisable goods. Since Budget there has also been a significant fall in production of ready-to-drink beverages (RTDs) following an increase in their excise rate, which is only partly offset by a substitution towards domestically-produced and imported spirits and other excisable alcoholic beverages. In addition, crude oil excise has been revised downwards as condensate production is expected to generate less excise duty than assumed at Budget, partly owing to lower oil prices.

Analysis of the sensitivity of the taxation revenue estimates to changes in the economic outlook is provided in this part. The MYEFO revenue estimates have been prepared during a period of very substantial financial and economic uncertainty, meaning that there is an increased degree of uncertainty surrounding the forecasts as outlined in Appendix C.

Non-taxation revenue in 2008-09 is expected to be \$0.6 billion lower than forecast at the 2008-09 Budget, largely reflecting:

- a \$1.3 billion decrease in the Reserve Bank of Australia's dividend to be received in 2008-09, chiefly due to significant valuation losses in the June quarter 2008 as a result of the appreciation of the exchange rate and, to a lesser extent, the rise in global bond yields;
- a \$577 million increase in estimated total Offshore Petroleum Royalties revenue reflecting updated production forecasts by the Western Australian Department of Industry and Resources along with the effects of revised foreign exchange movements and oil and gas price adjustments. The expected increase in revenue also generates an estimated \$380 million increase in expenses in the form of higher royalty payments to the Western Australian Government; and
- a decrease of \$150 million in interest revenue primarily due to lower interest rates and lower levels of assets held by the Australian Office of Financial Management.

Variations in expense estimates

Since the 2008-09 Budget, estimated expenses for 2008-09 have increased by \$11.2 billion reflecting increased expenses from new policy decisions of \$11.4 billion, partially offset by net parameter and other variations of \$0.3 billion.

Table 4.10: Reconciliation of general government sector expense estimates

	Estimates		Projections	
	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
2008-09 Budget expenses	292,470	310,513	323,083	339,241
Changes between 2008-09 Budget and MYEFO				
Effect of policy decisions(a)	11,413	1,172	743	842
Effect of economic parameter variations				
Unemployment benefits	115	1,164	1,151	1,264
Prices and wages	22	-67	-234	-445
Interest and exchange rates	56	62	74	60
<i>Total economic parameter variations</i>	<i>194</i>	<i>1,159</i>	<i>991</i>	<i>880</i>
Public debt interest	298	264	227	121
Program specific parameter variations	-1,123	-1,163	-405	-157
Slippage in 2008-09 Budget decisions	138	0	0	0
Other variations	236	-202	-357	-1,142
Total variations	11,154	1,230	1,200	544
2008-09 MYEFO expenses	303,624	311,742	324,283	339,785

(a) Excludes the public debt net interest effect of policy measures.

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Major policy decisions since the 2008-09 Budget (up to and including 28 October 2008) have increased estimated expenses by \$11.4 billion in 2008-09 and include:

- \$4.9 billion in 2008-09, including administration costs, for a one-off payment to pensioners (\$1,400 for singles and \$2,100 for couples) who receive eligible pension payments, persons who receive Carer Allowance (\$1,000) or persons eligible for a Seniors Concession Allowance (\$1,400 for singles and \$2,100 for couples);
- \$3.9 billion in 2008-09, including administration costs, for a one-off payment of \$1,000 per child to families with an eligible child in their care who are entitled to Family Tax Benefit (A) or families with dependent children receiving Youth Allowance, Abstudy or Veterans' Children's Education Scheme payment;
- \$1.2 billion in 2008-09 (\$1.5 billion over two years to 2009-10) to introduce the temporary First Home Owners Boost to assist first home buyers entering the housing market;
- \$399 million in 2008-09 in funding for drought relief, including income support and interest rate subsidies to assist farmers and small businesses most affected by drought. This policy measure reflects the extension of Exceptional Circumstances assistance;
- \$162 million in 2008-09 (\$232 million over two years to 2009-10) to increase the Productivity Places Program by providing an additional 71,000 Job Seeker training places to provide specific retraining and targeted support for displaced workers;
- \$100 million in 2008-09 (\$400 million over four years) to establish a Global Carbon Capture and Storage Institute to accelerate the development of carbon capture technology by facilitating demonstration projects, and identifying and supporting necessary research on related topics; and
- \$100 million in 2008-09 for Australia's contribution to the World Bank's Clean Technology Fund, to fund transformative investment in low carbon technologies in developing countries, sectors or regions.

In 2008-09, parameter and other variations have reduced estimated expenses by \$0.3 billion since Budget largely reflecting:

- a reduction in forecast expenses of \$1.4 billion in relation to the provision of GST payments to the States and Territories due to downwards revisions in estimated GST receipts;
- a \$305 million reduction in forecast penalty remission expenses for company taxation, consistent with the lower than expected level of remissions recorded in the first quarter of the financial year;

- a \$133 million decrease in age pension estimates due to lower than expected growth in pension customer numbers. This decrease has been partially offset by an increase in estimated costs due to higher than forecast indexation of the pension and higher than expected pension bonus scheme payments;
- a \$104 million reduction in pharmaceutical and pharmaceutical services expenses, consistent with slightly slower than previously forecast growth in the purchase of drugs funded through the Pharmaceutical Benefits Scheme;
- a \$103 million reduction in estimated Family Tax Benefit (FTB) expenses due to lower than expected numbers of recipients of FTB, partially offset by higher than expected average rates paid to customers, driven by a higher proportion of customers receiving full payments;
- an \$88 million decrease in estimated parenting payment expenses due to lower average payment rates received by recipients than projected at Budget, partially offset by higher than forecast recipient numbers; and
- a reduction in expense estimates following the inclusion of a provision for underspends in 2008-09. A provision is included each year at the MYEFO update to provide for the established tendency of agencies to underspend their budgets in the current financial year.

These reductions have been partially offset by:

- a change in the accounting treatment for concessional loans of \$755 million following the review foreshadowed in the 2008-09 Budget. The impact of this variation on the fiscal balance is offset in part by an increase of \$380 million in non-taxation revenue resulting from this accounting change, leaving a net budget impact of \$375 million;
- an increase of \$434 million in estimated Defence expenses largely due to a bring forward of operating expenditure from future years into 2008-09 and foreign exchange movements;
- a \$380 million increase in estimated expenses in the form of higher Offshore Petroleum Royalties payments to the Western Australian Government. This expected increase is generated as a result of a \$577 million increase in estimated revenue reflecting updated production forecasts by the Western Australian Department of Industry and Resources along with the effects of revised foreign exchange movements and oil and gas price adjustments;
- a \$298 million increase in forecast public debt interest expenses primarily due to the additional government securities on issue (as announced by the Treasurer on 20 May 2008);

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- a \$268 million increase in Disability Support Pension expenses as a result of an increase in customer numbers relative to expectations at Budget, mainly reflecting a lower than expected impact of the *Welfare to Work* measures announced in the 2005-06 Budget; and
- a \$137 million increase in forecast expenses associated with the continuation of the Medicare Chronic Disease Dental Scheme (CDDS). This scheme was to have been superseded by two measures announced at Budget – the Commonwealth Dental Health Program and the Medicare Teen Dental Plan. The determination to cease the CDDS was disallowed by Parliament, resulting in ongoing access to the scheme.

A full description of all policy measures since Budget can be found in Appendix A. Estimates of Australian Government general government expenses by function and sub-function can be found in Attachment C.

Variations in net capital investment estimates

In 2008-09, forecast net capital investment has decreased by \$88 million since Budget. This mainly reflects the net impact of a range of parameter and other variations, including:

- a \$331 million net reduction in estimated Defence net capital investment, stemming from estimated planned expenditure of \$715 million slipping from 2008-09 to later years (reflecting the slower than previously anticipated delivery of a range of Defence capital projects), partly offset by upwards variations in estimated net capital expenditure as a result of the depreciation in the Australian dollar; and
- a \$35 million increase in capital investment for the Australian Federal Police in relation to the fit-out of the Edmund Barton building, its new headquarters in Canberra.

Table 4.11: Reconciliation of general government sector net capital investment estimates

	Estimates		Projections	
	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
2008-09 Budget net capital investment	3,872	4,050	4,462	5,094
Changes between 2008-09 Budget and MYEFO				
Effect of policy decisions(a)	2	91	76	-21
Effect of parameter and other variations	-90	1,338	1,018	598
Total variations	-88	1,429	1,094	577
2008-09 MYEFO net capital investment	3,784	5,480	5,556	5,670

(a) Excludes the public debt net interest effect of policy measures.

Net financial worth, net worth and net debt

Net financial worth measures a government's holdings of financial assets and is a key indicator of financial sustainability. It is a broader measure of the financial position than net debt.

Net financial worth for the Australian Government general government sector is forecast to be -\$22.0 billion in 2008-09 and is expected to become positive in 2011-12.

The decline in estimated net financial worth in 2008-09 from the -\$3.6 billion that was estimated in the 2008-09 Budget primarily reflects:

- a decrease in the expected level of term deposits held as result of a lower estimated underlying cash balance; and
- a decrease in advances paid, mainly reflecting the change in accounting treatment for concessional loans incorporated in the *Final Budget Outcome 2007-08*.

Net worth is forecast to be \$70.0 billion in 2008-09, compared with \$86.0 billion estimated at the 2008-09 Budget. This decline primarily reflects the changes outlined above for net financial worth.

Since the 2008-09 Budget, the estimated level of net debt has improved from -\$45.0 billion to -\$47.2 billion. This primarily reflects the changes outlined above for net financial worth and, in addition, changes to assumptions relating to the financial asset composition of the Future Fund which involves an increase in investments that are included in the calculation of net debt. With this level of net debt, the Government is expected to earn net interest receipts of \$1.6 billion in 2008-09.

Table 4.12 provides a summary of Australian Government general government sector net financial worth, net worth, net debt and net interest payments.

Table 4.12: Australian Government general government sector net financial worth, net worth, net debt and net interest payments

	Estimates			
	2008-09		2009-10	
	Budget	MYEFO	Budget	MYEFO
Financial assets (\$b)	212.1	203.6	237.3	213.5
Non-financial assets (\$b)	89.6	92.0	93.4	97.6
Total assets (\$b)	301.7	295.6	330.7	311.1
Total liabilities (\$b)	215.7	225.5	219.3	228.8
Net worth (\$b)	86.0	70.0	111.4	82.3
Net financial worth (\$b)(a)	-3.6	-22.0	18.0	-15.3
Per cent of GDP	-0.3	-1.8	1.4	-1.2
Net debt (\$b)(b)	-45.0	-47.2	-65.4	-54.3
Per cent of GDP	-3.7	-3.9	-5.1	-4.3
Net interest payments (\$b)(c)	-2.2	-1.6	-2.8	-1.5
Per cent of GDP	-0.2	-0.1	-0.2	-0.1
	Projections			
	2010-11		2011-12	
	Budget	MYEFO	Budget	MYEFO
Financial assets (\$b)	256.7	215.1	283.6	229.3
Non-financial assets (\$b)	97.8	103.5	103.0	109.5
Total assets (\$b)	354.5	318.6	386.6	338.8
Total liabilities (\$b)	216.2	224.4	221.5	228.7
Net worth (\$b)	138.3	94.2	165.1	110.1
Net financial worth (\$b)(a)	40.4	-9.2	62.1	0.6
Per cent of GDP	3.0	-0.7	4.4	0.0
Net debt (\$b)(b)	-86.5	-61.6	-106.7	-72.4
Per cent of GDP	-6.5	-4.7	-7.6	-5.3
Net interest payments (\$b)(c)	-3.1	-0.6	-5.4	-1.7
Per cent of GDP	-0.2	0.0	-0.4	-0.1

(a) Net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets.

(b) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

(c) Net interest payments is calculated as the difference between cash interest received and cash interest paid.