Mid-Year Economic and Fiscal Outlook
2019-20
DECEMBER 2019

Statement by
The Honourable Josh Frydenberg MP
Treasurer of the Commonwealth of Australia
and
Senator the Honourable Mathias Cormann
Minister for Finance of the Commonwealth of Australia

For the information of honourable members
NOTES

(a) The following definitions are used in this Mid-Year Economic and Fiscal Outlook (MYEFO):
- ‘real’ means adjusted for the effect of inflation;
- real growth in expenses and payments is calculated by the Consumer Price Index (CPI) as the deflator;
- the Budget year refers to 2019-20, while the forward years refer to 2020-21, 2021-22 and 2022-23; and
- one billion is equal to one thousand million.

(b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:
- estimates under $100,000 are rounded to the nearest thousand;
- estimates $100,000 and over are generally rounded to the nearest tenth of a million;
- estimates midway between rounding points are rounded up; and
- the percentage changes in statistical tables are calculated using unrounded data.

(c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.

(d) The following notations are used:
- nil
- na not applicable (unless otherwise specified)
- $m millions of dollars
- $b billions of dollars
- nfp not for publication
- (e) estimates (unless otherwise specified)
- (p) projections (unless otherwise specified)
- NEC/nec not elsewhere classified
(e) The Australian Capital Territory and the Northern Territory are referred to as ‘the territories’. References to the ‘states’ or ‘each state’ include the territories. The following abbreviations are used for the names of the states, where appropriate:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>New South Wales</td>
</tr>
<tr>
<td>VIC</td>
<td>Victoria</td>
</tr>
<tr>
<td>QLD</td>
<td>Queensland</td>
</tr>
<tr>
<td>WA</td>
<td>Western Australia</td>
</tr>
<tr>
<td>SA</td>
<td>South Australia</td>
</tr>
<tr>
<td>TAS</td>
<td>Tasmania</td>
</tr>
<tr>
<td>ACT</td>
<td>Australian Capital Territory</td>
</tr>
<tr>
<td>NT</td>
<td>Northern Territory</td>
</tr>
</tbody>
</table>

(f) In this paper the term Commonwealth refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

The term Australian Government is used when referring to the Government and the decisions and activities made by the Government on behalf of the Commonwealth of Australia.
Foreword

The *Mid-Year Economic and Fiscal Outlook 2019-20* (MYEFO) has been prepared in accordance with the *Charter of Budget Honesty Act 1998*. The Charter requires that the Government provide a mid-year budget report which provides updated information on the Government’s fiscal position.

Consistent with these requirements:

- **Part 1: Overview** — contains summary information on the key fiscal and economic indicators and outlook
- **Part 2: Economic outlook** — discusses the domestic and international economic forecasts and projections that underpin the budget estimates
- **Part 3: Fiscal strategy and outlook** — provides a discussion of the fiscal strategy and outlook, in addition to a summary of the factors explaining variations in the cash flow statement, the operating statement and the balance sheet since the 2019 Pre-election Economic and Fiscal Outlook (PEFO).
- **Part 4: Debt statement** — provides information on current and projected Government debt
- **Part 5: Forecast uncertainties, sensitivities and scenarios** — provides details of the historical performance of Budget forecasts and presents a number of scenarios seeking to illustrate the sensitivity of budget aggregates to changes in economic forecasts and projections and some underlying assumptions
- **Part 6: Statement of risks** — provides details of general developments or specific events that may have an impact on the fiscal position, and contingent liabilities which are costs the government may possibly face, some of which are quantified
- **Part 7: Australian Government Budget Financial Statements** — provides financial statements for the general government, public non-financial corporations and total non-financial public sectors
- **Appendix A: Policy decisions taken since the 2019 PEFO** — provides details of decisions taken since the 2019 PEFO that affect revenue, expense and capital estimates
- **Appendix B: Supplementary expense tables and the Contingency Reserve** — provides estimates of general government expenses by function and sub-function and outlines the role of the Contingency Reserve
• **Appendix C: Australia’s federal relations** — provides information on payments for specific purposes and general revenue assistance provided to the states and territories

• **Appendix D: Tax benchmarks and variations** — provides information on the largest measured Australian Government tax benchmark variations

• **Appendix E: Historical Australian Government data** — provides historical data for the Australian Government’s key fiscal aggregates

The last published update of economic forecasts and fiscal estimates was at the 2019 Pre-election Economic and Fiscal Outlook (PEFO), released jointly by the Treasury and the Department of Finance on 17 April 2019. The economic forecasts were unchanged since the 2019-20 Budget and the fiscal estimates did not change materially in the 2019 PEFO. In some instances, 2019 PEFO forecasts and estimates referenced in this document are identical to those published at the 2019-20 Budget.
# Contents

Foreword..........................................................................................................................v

**Part 1: Overview .............................................................................................................1**
- Updated fiscal outlook.................................................................................................2
- Updated economic outlook.........................................................................................3
- The Government’s priorities.......................................................................................4
- A stronger and more productive economy...............................................................4
- Guaranteeing services and strengthening communities.........................................7
- Stepping up Australia’s engagement in the Pacific...............................................8

**Part 2: Economic outlook ..............................................................................................11**
- Overview..................................................................................................................11
- International economic outlook...............................................................................13
- Domestic economic outlook.....................................................................................16
- Medium-term projections.........................................................................................28

**Part 3: Fiscal strategy and outlook .............................................................................29**
- Overview..................................................................................................................29
- Fiscal strategy...........................................................................................................30
- Returning the budget to surplus.............................................................................32
- Strengthening the Government’s balance sheet.....................................................37
- Fiscal outlook............................................................................................................39
- Budget aggregates.....................................................................................................39
- Underlying cash balance estimates.........................................................................41
- Receipts estimates.....................................................................................................43
- Payments estimates..................................................................................................49
- Net operating balance estimates............................................................................52
- Revenue estimates.....................................................................................................53
- Expense estimates.....................................................................................................57
- Net capital investment estimates.............................................................................58
- Headline cash balance..............................................................................................58
- Recurrent and capital spending.................................................................................60
- Structural budget balance.........................................................................................61
Appendix B: Supplementary expenses table and the Contingency Reserve .......................................................................................................................... 297
Expenses .................................................................................................................................................................................. 297
Contingency Reserve ......................................................................................................................................................... 300

Appendix C: Australia's Federal Relations .......................................................................................................................... 301
Overview of payments to the states ........................................................................................................................................ 301
Payments for specific purposes .................................................................................................................................................... 302
General revenue assistance .......................................................................................................................................................... 306

Appendix D: Tax Benchmarks and Variations Statement ............................................................................................................. 311

Appendix E: Historical Australian Government data .................................................................................................................. 313
Data sources ............................................................................................................................................................................. 313
Comparability of data across years ............................................................................................................................................. 313
Revisions to previously published data ........................................................................................................................................ 314