

Budget 2020 – Fiscal Outlook

Source: [Budget Strategy and Outlook Budget Paper No. 1 2020–21](#), Budget Paper No. 1

Australia's economic indicators and fiscal position for 2020 reflect the impacts of the COVID-19 pandemic and the measures that have been implemented to contain the virus, including lockdowns and travel restrictions. The fiscal position also reflects the Australian Government's response policies aimed at financially supporting households and businesses during the pandemic and fuelling the economy's recovery.

After 29 years of expansion, the Australian economy entered a recession in 2020 when it experienced two consecutive quarters of negative economic growth: Australia's real GDP fell by 0.3 per cent in the March quarter, and a further 7.0 per cent in the June quarter. This contraction in official economic activity constitutes the largest economic downturn in Australia since the Great Depression of the 1930s.

Recessionary conditions have seen Australia's employment numbers shrink by 4.3 per cent in 2019-20 compared to the preceding financial year. Australia has recorded an official unemployment rate 7 per cent in 2019-20, although this measurement of unemployment does not include workers who are being supported by the government's JobKeeper scheme. As of October 2020, over 3.8 million people have received the JobKeeper payment as a means of retaining workers' attachment to their current employer.

The Budget forecasts the annual unemployment rate to peak at 7.25 per cent in 2020-21, before heading downwards to reach 5.5 per cent by 2023-24. The expectation that wage growth will remain below average in the next financial year reflects the significant spare capacity of the labour market. The Budget reports that without the Government's economic support, the unemployment rate would have risen above 12 per cent throughout 2020-21 and 2021-22.

The Budget acknowledges that female and young workers experienced the largest fall in aggregate employment numbers from the start of pandemic, reflective of these cohorts' higher concentration in the industries and jobs that were mostly profoundly affected by the virus containment measures. The Budget reports that, between May and August, 270,000 women regained employment, compared to 190,000 men. However, the Budget does not specifically report that this increase in employment follows a period, between March and May, where women's employment fell by around 470,000 while men's fell by around 400,000 (ABS, Labour Force, Australia, Cat. No. 6202.0). Furthermore, while the fall in female employment between March and May was comprised of a fall of 147,000 full-time and

324,000 part-time jobs, the rebuilding of women's employment from May to August was made up of 266,000 part-time jobs yet only 22,784 full-time jobs (ABS, Labour Force, Australia, Cat. No. 6202.0).

The Government has significantly increased its levels of public spending to compensate for the downturn in private sector activity: household consumption fell by 12.1 per cent and new business investment fell by 3.5 per cent over the June quarter 2020. The Budget acknowledges that the consumption of services such as accommodation, food, recreation and transport has been particularly hard hit by the impact COVID-19 pandemic.

The Australian Government's economic support since the onset of the COVID-19 pandemic totals \$257 billion. The Budget allocates \$98 billion in new response and recovery measures, bringing the Australian Government's overall support in response to the COVID-19 pandemic to \$507 billion. The provision of the Coronavirus Supplement, the JobSeeker Payment, and other forms of economic support payments to households during the pandemic, constitute the bulk of the \$46 billion in new government expenditure allocated towards social security and welfare over 2019-20 and 2020-21. The JobKeeper Payment and other measures to assist businesses are part of the \$120 billion in new measures over 2019-20 and 2020-21 that are reported as Other Economic Affairs in the expenditure side of the ledger.

Across all expenditure functions, social security comprises the bulk (33.9%) of the Australian Government's overall expenses in 2020-21. Health (14.0%), education (6.2%) and defence (5.1%) are among the next largest expenditure categories. Total expenses in 2020-21 sum up to \$670.33 billion. In terms of specific initiatives to support women's economic opportunities and outcomes, \$240.4 million, allocated over five years from 2020-21, has been provided for in the 2020 Women's Economic Security Statement.

Government spending, in terms of new public final demand, is forecast to grow by 5.75 per cent in 2020-21. In addition to direct public spending, the government is aiming to stimulate spending via the other fiscal levers including bringing forward reductions in income taxes, providing instant asset write-offs for businesses, and providing transfer payments to unemployed individuals. The expansionary impact of these fiscal levers will be borne out in changes in household consumption and business investment. However the precise effectiveness of these stimulus policies depends on the private sector's responsiveness, namely the extent to which households are likely to spend rather than save their tax cuts, and the extent to which businesses act on incentives to invest in capital.

The increase in government spending and transfer payments, coupled with a reduction in tax revenues (across consumption, income and business tax measures), has contributed to an historically large budget deficit. Compared to the 2019-20 MYEFO, total tax receipts in 2020-21 have been revised downwards by \$55.2 billion. The underlying cash balance is now an estimated deficit of \$213.7 billion in 2020-21. Net debt is estimated to reach \$703.2 billion (equivalent to 36.1 per cent of GDP) by the end of the 2020-21 financial year. The debt is largely driven by the government's increased borrowing requirements, stemming from its

response to the pandemic as well as the impacts of the recessionary conditions on government revenue.

As the economy rebuilds, with a forecast real GDP growth rate of 4.75 per cent in 2021-22, the government expects to run a smaller budget deficit over the forward estimates, predicting a deficit of \$112.0 billion in 2021-22. However, with the government’s budget position now shifting deeply into a deficit, the government’s pre-pandemic goal to return the budget to surplus – that is, to get the economy “back in black” – has now been replaced by the goal of economic recovery, restoring jobs, and reducing unemployment.

The fiscal outlook is premised of several assumptions over the forecast period relating to the COVID-19 pandemic, including the assumptions that localised outbreaks of COVID-19 will be largely contained, that a population-wide Australian COVID-19 vaccination program will be fully in place by late 2021, and that net overseas migration will return to positive levels in 2023-24. To the extent that uncertainty prevails about the spread of the virus, the effectiveness of health interventions, the future timing and efficacy of vaccines and other medical treatments, and the economic recovery of Australia’s global trading partners, significant caveats apply to the fiscal outlook presented in the Budget. Should conditions require an extension or re-introduction of containment measures, the fiscal outlook for growth and other recovery indicators would be weaker than estimated.

Table 1: Budget aggregates

	Actual	Estimates				Total (a)
	2019-20	2020-21	2021-22	2022-23	2023-24	
Underlying cash balance (\$b) (b)	-85.3	-213.7	-112.0	-87.9	-66.9	-480.5
Per cent of GDP	-4.3	-11.0	-5.6	-4.2	-3.0	
Net operating balance	-92.3	-197.9	-103.4	-83.5	-58.5	-443.3
Per cent of GDP	-4.7	-10.2	-5.1	-4.0	-2.7	

Source: Table 1, Budget Paper No. 1, Statement 1: Budget Overview, Page 1-6.

(a) Total is equal to the sum of amounts from 2020-21 to 2023-24.

(b) Excludes net Future Fund earnings before 2020-21.

Table 2: Major economic parameters^(a)

	Outcome	Forecast			
	2019-20	2020-21	2021-22	2022-23	2023-24
Real GDP	-0.2	-1.50	4.75	2.75	3
Employment	-4.3	2.75	1.75	1	1.75
Unemployment rate	7.0	7.25	6.5	6	5.5
Consumer price index	-0.3	1.75	1.5	1.75	2
Wage price index	1.8	1.25	1.5	2	2.25
Nominal GDP	1.7	-1.75	3.25	4.5	5

Source: Table 1, Budget Paper No. 2, Statement 1: Budget Overview, Page 1-8.

(a) Real GDP and nominal GDP are percentage change on preceding year. The consumer price index, employment, and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter. The original publication cites the sources: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; and Treasury.

This page amended 19 October 2020.

Modelling results: Investing in care sectors would lift GDP further

Independent modelling commissioned by the NFAW analysed the impacts on GDP that would flow from an increase in government-funded provision of services in the child care, residential aged care and residential disabled care and other social assistance over four years from 2021-22 onwards.

The size of this investment is based on identifying how many people with unpaid caring responsibilities would work more if more care services were available. The available data indicates that for around 923,000 people, caring responsibilities act as a barrier to workforce participation. The model assumes that government-funded care services would be expanded to meet this need.

To support this expansion in service delivery, it is assumed that the wages of workers in these care sectors will rise, the capital stock of the sector will grow, and labour supply (measured by hours of work) would also expand to deliver these services, particularly generating more jobs for women given the female-dominated nature of these workforces.

Under this hypothesised scenario, an increase in government-funded service delivery in the child care, aged care and disability care sectors beginning in 2021 would generate an increase in GDP as soon as it was introduced. By 2030, GDP is estimated to be 1.64 per cent higher than it would be in the absence of this investment.

Higher GDP is achieved not only via higher public expenditure, but also through higher household consumption and business investment and a strengthening of the currency. This effect is achieved via several channels:

- people with caring responsibilities would be relieved of these responsibilities, allowing them to allocate more time towards paid work and earn more paid income
- the higher workforce involvement of these carers would have the effect of expanding the pool of available workers that employers can draw from
- the government would receive more revenue via income taxes, GST and payroll taxes

This increase in GDP is calculated on the assumption that the higher government expenditure on the caring sectors is deficit-financed, and that no explicit policy measures are taken to recover the deficit. Without raising tax rates or redirecting government funding away from other sectors of the economy, the cost to government is mostly, but not completely, offset by increased revenue from income taxes, GST and payroll taxes. By 2030, the annual cost of the additional service delivery would be \$19 billion but the net cost to government less than \$3 billion.

The channel through which this investment generates a positive impact on economy output would be manifested through an improvement in the nation's aggregate workforce

participation rate, one of the “3 Ps” that are key to achieving economic prosperity. The investment also increases women’s financial security.

The model predicts that the workforce would absorb the expansion in labour supply through a slowdown in the rate of wage growth across the rest of the economy, compared to what would occur otherwise. Because the model assumes an explicit wage increase for care workers as part of this service expansion, this investment in care service would result in a narrowing the gender pay gap, given that care sector workers are predominately female and the rate of pay in the sector is below the workforce average

The modelling was undertaken using Computable General Equilibrium (CGE) methods. The simulations were run using VUEF-G, which is a variant of the Victoria University Employment Forecasting (VUEF) model of the Australian economy that incorporates a detailed representation of the labour market and gender profile of the economy. Further details are provided in Appendix A.