

Budget 2021 – Fiscal outlook

Fiscal outlook

- The 2021-22 Budget runs an underlying cash balance of \$106.6 billion, equivalent to 7.6 per cent of GDP.
- The fiscal position reflects the historically high stimulus support injected into the economy to support the recovery, as well as increased investment in areas of social need including aged care and mental health services.
- The economy is expected to rebound solidly from the COVID-induced recession, with a forecast growth rate of 4.25 per cent in 2022-21, before moderating with a growth rate of 2.5 per cent in the following year. Employment opportunities are expected to strengthen, with the unemployment forecast to fall below 5 per cent in 2022-23.
- This 2021-22 Budget included a Women’s Budget Statement document which improves on recent budgets in terms of comprehensiveness and analysis, but still falls short of applying a gender lens across the entirety of all budget measures, as per a comprehensive Gender Responsive Budgeting approach.

Budget aggregates

This year’s fiscal position reflects the historically high stimulus support that the Australian Government is injecting into the economy to steer the economy toward recovery following the COVID-induced recession.

The fiscal position also reflect significant investments by the Australian Government in aged care and mental health services in response to recent Royal Commission and inquiries commissioned by the Government. The focus of these investments is to “guarantee high-quality and sustainable services for our community’s most vulnerable”.

The underlying cash balance for 2020-21 is estimated to be a deficit of \$106.6 billion, equivalent to 7.6 per cent of GDP. The underlying cash balance is forecast to reduce in forthcoming years as the economy recovers, and tax receipts grows and government support reduces.

The debt-to-GDP ratio provides a measure of the economy’s capacity to service this debt in the future. Net debt is expected to equate to 32.2 per cent of GDP by the end of 2022, peaking at

40.9 per cent by 2025. This debt-to-GDP ratio is deemed low relative to most other advanced economies and fiscally sustainable, by historically low interest rates.

The extension of the Australian Government Securities across the yield curve has contributed towards reducing the refinancing risk on the debt portfolio. This strategy reduces the sensitivity of debt repayments to short term movements in yields. The Budget reports that this approach means the debt-to-GDP ratio can be serviced without the need to run a budget surplus.

The fiscal deficit represents a profound change in rhetoric from the current Australian Government’s previous approach to economic management which was focused on returning the budget to surplus. By contrast, the Government has now articulated a new goal to guide its fiscal policy settings, focused on reducing unemployment as a measure of economic recovery. However, the Australian Government has retained a focus on elevating the private sector as the engine room for the economy, articulating its intent for private sector activity to be the mechanism that sustains Australia’s economic recovery, particularly as the stimulus support is progressively wound back.

Table 1: Budget aggregates

	Actual	Estimates					Total (a)
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	
Underlying cash balance (\$b)(b)	-85.3	-161.0	-106.6	-99.3	-79.5	-57.0	-342.4
Per cent of GDP	-4.3	-7.8	-5.0	-4.6	-3.5	-2.4	
Net operating balance (\$b)	-92.3	-154.5	-92.7	-90.2	-70.2	-55.7	-308.9
Per cent of GDP	-4.7	-7.5	-4.3	-4.1	-3.1	-2.3	

Source: 2021 Budget Paper No. 1, Statement 1: Budget Overview, Table 1.1 <<https://budget.gov.au/2021-22/content/bp1/index.htm>>
 (a) Total is equal to the sum of amounts from 2021-22 to 2024-25. (b) Excludes net Future Fund earnings before 2020-21.

Economic outlook

Following two consecutive quarters of negative GDP growth in June and September quarters of 2020, the Australian economy is emerging from the pandemic-induced recession. The Australian economy’s recovery has been supported by the government’s large stimulus initiatives. Households are also re-directing spending back towards consumption, following several periods of historically high saving ratios.

Real GDP returned to positive growth rates in 2021. This strong growth period throughout 2021 represents a rebound from the suppressed rates of economic activity that were experienced during the lockdowns. Real GDP is forecast to grow annually by 1.25 per cent in 2020-21, accelerating to 4.25 per cent growth in 2021-22. Following this rebound, growth rates are expected to moderate in coming years, with a forecast growth rate in real GDP of 2.5 per cent in 2022-23.

The consumer price index, as a measure of the change in the overall price level in the economy, is expected to rise from a negative rate of 0.3 per cent in 2019-20 to a positive rate of 3.5 per cent in 2020-21, indicative of the economy gaining momentum. Forecasts for the years ahead place the inflation rate in the vicinity of 2 per cent annually, which aligns with the lower bound of the RBA’s inflation target.

Australia's employment outlook is also reflects a positive rebound from the recession. Following a fall in the aggregate employment rate by 4.2 percentage points during 2019-20, the employment rate is forecast to lift by 6.5 percentage points in 2020-21, before easing to a annual growth rate of 1 percentage point annually in 2021-22.

Correspondingly, Australia's 2019-20 unemployment rate of 6.9 per cent is forecast to improve to 5.5 per cent for 2020-21. Unemployment is forecast to continue to fall further to 4.5 per cent by 2023-24. The last time that the Australian labour market recorded an unemployment rate that was sustained below 5 per cent was in 2008 before the Global Financial Crisis.

Table 2: Major economic parameters^(a)

	Outcome	Forecasts				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Real GDP	-0.2	1 1/4	4 1/4	2 1/2	2 1/4	2 1/2
Employment	-4.2	6 1/2	1	1	1 1/4	1 1/4
Unemployment rate	6.9	5 1/2	5	4 3/4	4 1/2	4 1/2
Consumer price index	-0.3	3 1/2	1 3/4	2 1/4	2 1/2	2 1/2
Wage price index	1.8	1 1/4	1 1/2	2 1/4	2 1/2	2 3/4
Nominal GDP	1.7	3 3/4	3 1/2	2	4 3/4	5

Source: 2021 Budget Paper No. 1, Statement 1: Budget Overview, Table 1.2 <<https://budget.gov.au/2021-22/content/bp1/index.htm>>

(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. Budget paper cites the following sources: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia and Treasury.

To supplement these aggregate workforce-wide indicators, Table 3 presents the labour force indicators disaggregated by gender. Due to the atypical disruptions the pandemic caused in the labour market, it is important to consider fluctuations in workforce participation and under-employment alongside the standard metrics, especially because these metrics tend to differ by gender.

Both men and women's employment opportunities were negatively impacted during the pandemic, manifested by a fall in employment numbers and a rise in the unemployment rate. For some workers, the negative toll of the pandemic took the form of reduced hours, which is captured by an increase in the under-employment ratio. Women's underemployment ratio has consistently exceeded that of men's throughout the pandemic.

For other displaced workers, a loss in job opportunities or the inability to sustain employment during the pandemic (attributable, in part, to home-schooling responsibilities) resulted in workers stepping out of the workforce completely. These workers are not captured by the unemployed numbers, but instead captured by a fall in the labour force participate rate. The early months of the pandemic saw a significant drop in women's labour force participation rates. In the first two months of the pandemic, women's workforce participation had fallen by over 3 percentage points. These metrics indicate that women were more likely than men to absorb the negative toll of the pandemic by dropping out of the workforce rather than being recorded as unemployed. Disaggregating these indicators further by migrant status, Indigenous status, cultural and linguistic background, age, region, disability, sexuality and other important demographic characteristics, would highlight further disparities in workforce experiences.

Table 3: Labour market indicators by gender

Month	Employment numbers (000s)		Unemployment rate (%)		Under-employment (ratio)		Labour force participation rate (%)	
	Men	Women	Men	Women	Men	Women	Men	Women
Mar-2020	6837.6	6156.9	5.4	5.2	7.6	11.2	70.7	61.2
Apr-2020	6562.1	5840.4	6.7	6.0	13.3	15.9	68.8	58.5
May-2020	6457.2	5680.6	7.1	6.9	12.9	15.1	68.0	57.5
Jun-2020	6550.7	5825.9	7.4	7.3	11.8	13.5	69.1	59.2
Jul-2020	6603.3	5878.0	7.4	7.5	11.3	13.2	69.7	59.8
Aug-2020	6656.0	5974.3	6.9	6.6	11.4	13.0	69.9	60.2
Sep-2020	6625.3	5960.6	7.0	6.7	11.5	13.1	69.7	60.1
Oct-2020	6734.5	6013.6	6.9	7.0	9.9	12.7	70.7	60.8
Nov-2020	6788.2	6049.2	6.6	7.1	8.6	11.7	71.0	61.3
Dec-2020	6782.4	6094.1	6.6	6.5	7.6	10.8	71.0	61.3
Jan-2021	6811.5	6098.4	6.5	6.3	7.5	10.3	71.1	61.2
Feb-2021	6818.7	6175.2	6.2	5.5	7.7	10.4	70.9	61.4
Mar-2021	6836.8	6234.2	6.0	5.4	7.0	10.0	70.9	61.9
Apr-2021	6842.8	6197.6	5.8	5.2	6.8	9.7	70.8	61.3

Source: ABS, Labour Force Australia, Cat. no. 6202.0. All data are seasonally-adjusted. Under-employment is measured as a ratio of the number of people who are employed and seek more hours, as a fraction of the total number of people who are employed.

Australia's wage price index – a measure of changes in the wages and salaries of employees over time – is forecast to sit at 1.25 in 2020-21. This relatively weak rate is indicative of excess capacity in the labour force. The wage price index is expected to improve slightly in coming years as the labour market strengthens. However, as with all employment metrics, the average growth rate of wages and salaries for the workforce in aggregate will not reflect the experiences of all workers. Sectors with weaker job opportunities are likely to experience slower or even stagnant wage growth.

Some caveats apply to these economic forecasts. Australia's economic recovery depends on the capacity for potential COVID-19 outbreaks to be contained the effectiveness of vaccination programs, both in Australia and elsewhere in the world. It also depends on the timing of the re-opening of international borders and global trade arrangements that affect Australia's exports. The Budget also acknowledges that Australia's recovery has been buoyed by recent improvements in commodity prices, particularly iron ore, which has strengthened Australia's terms of trade.

The education and tourism sectors have been highlighted as key sectors whose economic outlooks are highly contingent on the reopening of international borders – and large employers of women. Yet, even beyond these sectors, international border closures also affect the supply of skilled workers across the economy more broadly, as well as affecting demand for goods and services within our economy and future population growth. Internally, Australia's economic

recovery depends on the mobility of workers and businesses to transition effectively out of sectors that are experiencing weaker demand towards high-growth, high-need areas.

A focus on women

This year's Budget stands in contrast to last year's Budget in terms of its focus on women and recognising the impacts of the pandemic on women's economic experiences.

This year's Budget explicitly acknowledged a Government's focus on "ensuring that Australia is a place where women are able and encouraged to make the choices that are right for them. This means an Australia that does not tolerate violence against women and their children, promotes women's economic security, and supports women's health and wellbeing."

The 2021-22 Budget included a Women's Budget Statement as part of the budget package. The document outlines the initiatives that will contribute towards addressing women's safety, economic security, and health and wellbeing. It also analysed the ways that women's economic outcomes were differently affected to men during the pandemic. In this respect, the 2021-22 Women's Budget Statement constitutes an expansion in awareness and action on the part of the Australia Government, compared to its more recent budget releases.

However, a more comprehensive approach to Gender Responsive Budgeting (GRB) would have applied as gender impact analysis across the entirety of the budget, as exemplified in the following chapters of this report. Casting a gender lens across all mainstream budget policies would also serve to dismantle notions that areas such as childcare are exclusively a women's issue, and instead understand how gender equality is about breaking down gender norms that apply to both men and women. A Gender Responsive Budgeting approach also applies this assessment to both expenditure and revenue-raising decisions. These elements are examined more fully in this report's Machinery of Government chapter.

The budget measures announced in the Women's Budget Statement amounted to \$3.4 billion, with some of this expenditure amount spread out over several years. As a point of comparison, total spending announced in the Budget for 2021-22 alone amounted to \$589.3 billion.¹

In 2021, the Australian Government established a new Cabinet Taskforce to lead the work to address the issues of women's safety, economic security, and health and wellbeing. The Taskforce is co-chaired by the Prime Minister and the Minister for Women, and supported by the Minister for Women's Safety, the Minister for Women's Economic Security, and the Assistant Minister for Women. This constitutes a significant expansion in portfolio appointments on issues affecting women, however the extent to which these new appointments generate meaningful changes in policy design and economic outcomes for all women is yet to be seen.

¹ Source: 2021-22 Budget Paper No. 1, Statement 3, Table 3.2: Australian Government general government sector budget aggregates; 2021-22 Women's Budget Statement.