

# 2010/11 Australian Budget: Better than all the rest

## Economic research note

12 May 2010

- The 2010/11 Budget clearly shows Australia's relative fiscal strength, with a return to surplus projected within 3 years and a peak in net debt of just 6% of GDP.
- In a global context, these outcomes are very welcome.
- The centre-piece of the 2010/11 Budget is largely the previously announced tax increases for the resources and tobacco sectors, with the revenue flow from these measure to support a cut in income and company taxes, incentives for small businesses and a new tax break for interest income.
- The direct impact on investment markets from the Budget should be minimal, but with the debate over the introduction of the RSPT to continue.

### Overview and market implications:

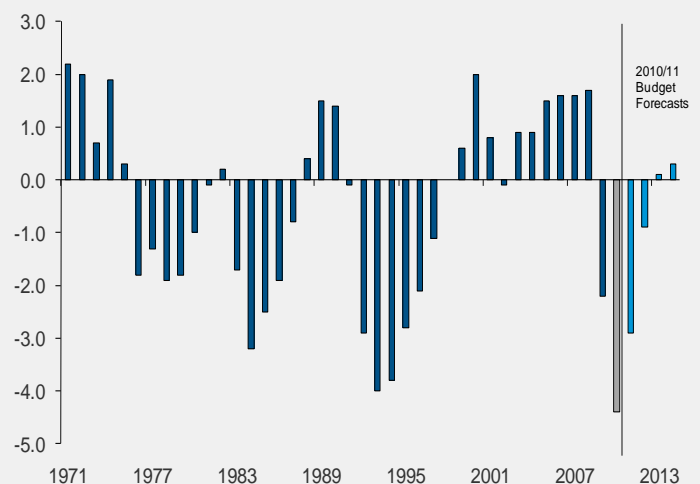
Following significant fiscal expansion over the course of 2009/10, the 2010/11 Commonwealth Budget is an exercise in fiscal consolidation – but should also be seen as a re-ordering of the priorities ahead of this year's expected Federal election.

For 2010/11 the Commonwealth Budget (underlying cash balance) is expected to be in deficit by \$A40.8bn or 2.9% of GDP. Although this is higher than market expectations going into the budget, it is a much better outcome than the latest 2009/10 estimated deficit of \$A57.1bn, 4.4% of GDP – although it could be considered that this estimate is conservative and the final outcome could be a lower deficit.

In the years ahead, the Commonwealth now expects the budget to return to surplus in 2012/13, well ahead of the 2015/16 surplus estimate made this time last year. The chart below shows the expected path back to surplus.

This path will involve containing outlays growth to a real 2%/pa and via retaining the higher revenue from a stronger economy and the introduction of new taxes, ie. the Resources Super Profits Tax (RSPT) and increased excise of tobacco products. Over the forecast period, revenue is expected to rise to 24.6% of GDP by 2013/14, from 22.9% in 2010/11, while outlays are forecast to decline to 24.0% of GDP in 2013/14 from 25.2% in 2010/11.

### Commonwealth budget surplus/deficit estimates



Source: Commonwealth Treasury



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Compared to last year's budget estimate for 2010/11, the underlying budget position has improved by around \$A16.3bn. However, more than all of this improvement is from parameter changes of \$A17.7bn, ie. mostly from much stronger revenue flows as a result of the stronger economy. Policy decisions made since last year's budget have actually increased the budget deficit in 2010/11 by approx. \$A1.4bn.

Nevertheless, Australia's fiscal position continues to stand-out against its OECD peers, especially given the fiscal woes so evident in Europe. The 2010/11 Commonwealth budget should be seen, therefore, by investors, both domestic and international, as a very positive sign of Australia's relative economic strength (as also is the tightening of monetary policy underway by the RBA).

In terms of the economic forecasts supporting the budget, we see this as credible and largely consistent with the view expressed by the RBA. Economic growth is set to accelerate to 3.25% in 2010/11, up from 2.0% in 2009/10 and then rise further to 4% in 2011/12. A significant part of this growth is expected to come from business investment, while the terms of trade are forecast to rise a very strong 14.25% in 2010/11. The budgets inflation forecast do, however, look a little low at 2.5% for 2010/11 and 2011/12, compared with the RBA's own forecasts of closer to 3% over the next few years.

The 2010/11 Commonwealth Budget also contains a number of policy initiatives (some previously announced) that will be key for the government in the lead-up to the expected H2 2010 Federal election.

In this regard the centre-piece of the Budget is the previously announced RSPT, which is estimated to add revenue of \$A3bn in 2012/13 and \$A9bn in 2013/14. In addition the increase in tobacco excise is expected to add \$A5.2bn over the four year period 2010/11-2013/14.

This revenue, along with that gained from the strengthening economy, will allow the government, as previously announced, to reduce the company tax rate from 30% to 28% gradually from 2011/12, increase spending on infrastructure and help fund the government's contribution to an increase in the superannuation guarantee charge (SGC) from the current 9% to 12% by 2019/20.

Other key policy initiatives in the Budget, with an eye to the election, include: the implementation of the next round of income tax cuts from 1 July 2010; incentives for small business; considerable spending on health and hospitals; a tax break for interest income earned from bank deposits, bonds, debentures and annuities; an optional standard deduction in income tax payers; some focus on climate change policies; further incentives to help create Australia as a financial centre; increased money for defence and a greater emphasis on skills training.

The improved budget outlook also implies a significantly reduced bond selling program and lower net debt level for the Commonwealth. This is, of course, in stark contrast to the situation in most other developed nations.

For 2010/11 the Australian Office of Financial Management (AOFM) is expected to issue a net \$A55bn in Commonwealth government securities (CGS).

This will likely see total CGS on issue peak at around \$A200bn as at 2011/12, well down on the estimate this time last year of a peak in CGS issuance just above \$A300bn.

For the Commonwealth, general government net debt is now expected to peak at around \$A93.7bn or near 6% of GDP in 2012/13, well down on the estimated levels over 80%-100%+ for a number of major OECD nations.

For equity markets, the positive macroeconomic backdrop of the Budget and expectations of above-trend growth over the next two years should be broadly positive. The earlier return to surplus is certainly a positive in the macro-environment, although the more rapid pace of fiscal consolidation should not alter the RBA's current policy path towards a more 'normal' monetary policy setting.

The reduction in the corporate tax rate is also a broad positive for equities, as is lower Commonwealth bond issuance, which should leave more room for corporate issuance in the market.

In terms of the budget impact on the superannuation industry, our FirstTech colleagues in Colonial First State have stated that "the fiscally conservative Budget reconfirmed the recent announcements by Treasurer Swan in response to the Henry Taxation Review. In addition there were a number of changes to taxation, superannuation and social security benefits. These changes include lower tax on bank savings with a 50% discount on up to \$A1000 of interest income, standard deductions for tax returns and childcare rebate capped to 2008/09 level of \$A7,500 per child."

#### Key policy initiatives:

Key policy initiatives in the 2010/11 Budget, some of which have been announced previously, were:

- Introduction of the 40% RSPT as at 1 July 2012. This tax is estimated to raise \$A9bn in the first full year of operation and will apply to profits from resource projects after allowing for extraction costs and recouping capital investment.
- Reduction in company tax rate from 30% to 28%, starting with a move to 29% on 1 July 2013 and then 28% from 1 July 2014. For small businesses, however, the rate will be cut to 28% in one hit from 1 July 2012.
- Small businesses will also receive other benefits, such as increasing existing capital allowance concessions by allowing small businesses to write off assets valued at under \$A5,000 immediately, up from \$A1,000. The government will also allow small businesses to write off all other assets, except buildings, in a single depreciation pool at a rate of 30%. This measure will be implemented in 2012/13.
- An increase in the superannuation guarantee charge (SGC) from the current 9% to 12%. This will start with a 0.25% increase in 2013/14, followed by another 0.25% increase in 2014/15 and then 0.5% moves each year to 12% by 2019/20.
- The Budget invests \$A1bn in transport infrastructure, totalling more than \$A5.6bn over the next decade, beginning with \$A700m in 2012/13. Resource rich states will receive relatively more funding to support development of the resources sector, with funding being funnelled from the RSPT.

- A considerable amount of initiatives were announced on National Health and Hospitals. The 2010/11 Budget invests \$A2.2bn over four years, taking the total investments to \$A7.3bn over five years (with \$A5.1bn announced as part of the changes to State and Commonwealth funding for Health).
  - Key initiatives include; after-hours access to general practitioner and primary care through Medical Locals (\$A416.8m over four years), GP Super clinics (\$A355.2m over three years), personally controlled Individual Electronic Health Records (\$A466.7m over two years) and an additional \$A522.7m over four years for nursing (this is in addition to \$A650.7m which had already been announced for more GPs).
  - Other key changes relating to health are the introduction of reforms to the pricing of medicines under the Pharmaceuticals Benefits Scheme, ensuring that if pharmaceuticals prices drop, so too does the governments funding. This is expected to save \$A1.9bn over five years.
  - The government is also lifting the threshold above which a taxpayer can claim the net medical expenses tax offset to \$A2,000 and will be indexed to the CPI commencing from 1 July 2010. These reforms will result in savings of \$A350m over four years.
  - The government continued with its tax reforms as part of the Henry Tax Review with the introduction of a tax discount for interest income. The government will provide \$A950m over the forward estimates to reduce the discrepancy of the tax treatment of interest income. From 1 July 2011, the government will provide individuals with a 50% discount on up to \$A1,000 of interest earned by individuals including interest earned on deposits held in authorised deposit taxing institutions, bonds, debentures and annuity product.
  - From 1 July 2012 the government will provide individual taxpayers with an optional standard deduction of \$A500 in lieu of claiming work-related expenses and the cost of managing their tax affairs. From 1 July 2013 this will increase to \$A1,000. This is expected to positively impact financially on 4.6 million individuals in 2012/13 and 6.4 million individuals in 2013/14. Those with high work related expenses can opt out of claiming the standard deduction and can continue to claim a higher deduction when filing their tax return.
  - Income tax cuts, as announced in the May 2008 Budget. This include increasing the income level for the 15% tax rate from \$A35k to \$A37k, which pushes the 30% tax rate to \$A37k-\$A80k (from \$A35k-\$A80k). In addition the rate for the \$A80k-\$A180k income group is reduced to 37%, from 38%. The cost of these income tax cuts is estimated at \$A3.8bn, but only approximately \$A9 per week to the average income earner.
  - In a preannounced move on April 30 2010, the excise and excise-equivalent customs duty rate applying to cigarettes was lifted by 25%. This will provide an extra \$A5.2bn in revenue over the next five years, helping offset additional health funding.
  - A Renewable Energy Future Fund was established with an investment of \$A652.5m over four years. This will support development of renewable energy projects, including wind, solar and biomass. This forms part of \$A5.1bn Clean Energy Initiative.
  - The Budget confirms the government's commitment to a Carbon Pollution Reduction Scheme (CPRS), although its implementation has been delayed. The modest improvements in postponing this will be fully deployed in enhancing the Clean Energy Initiative.
  - The move to promote Australia as a financial centre continued in the Budget, following the release of the Johnson report (Australian Financial Centre Forum) earlier in the year. A phase down of the interest withholding tax (IWT) rate paid by banks and other financial institutional on most interest paid on offshore borrowings will begin in 2013/14. The government target is to reduce the IWT to zero in the years ahead. The government will also establish a Centre for International Finance and Regulation to foster innovation and regulation.
  - Minor mention was made in the Budget of boosting competition in business lending and moves to encourage investors to consider low risk corporate bonds. The expectation is that this should make it easier for businesses to borrow directly from retail investors. No further details were available, but this expected to involve changes to ASX rule to encourage greater retail investment.
  - Border protection also featured in the Budget, providing \$A1.3bn to support defensive forces in Afghanistan and surrounding areas, including piracy in Somalia.
  - Additional spending will also focus on lifting productivity in the Australian economy through spending \$A661.2m in Skills for Sustainable Growth strategy. A focus will be made on lifting skills to respond immediately to capacity constraints, training for the future and on foundation skills (language, literacy and numeracy).
- The Budget and the economy:**
- The 2010/11 Budget confirms the better-than-expected economic outlook for Australia. After initially forecasting "growth" of -1.25% for 2009/10, the latest forecast is for growth in the year ending June 2010 of 2.0%.
- For 2010/11 the Budget projects economic growth of 3.25%, a growth rate well above the expected OECD average of around 2.3%.
- For 2010/11, economic growth is expected to be driven by private sector activity, in particular household consumption, business investment and exports. This positive contribution will be important as the government's fiscal stimulus is phased out and detracts from GDP growth.
- The global economy is presented as a downside risk to growth – the two key issues highlighted were concerns over fiscal sustainability in Europe and the possibilities of spill over to financial markets and the ability of China to withdraw stimulus and manage growing inflation pressures.

Inflation is expected to stabilise at around 2.5% through both 2010/11 and 2011/12. The government has highlighted that headline inflation is expected to be around 3.25% for the year to the June quarter 2010 before falling to 2.5%. It must be noted that these forecasts are lower than the RBA, which has headline inflation around 3% out till 2012 for the same growth profile. The government could be assuming tighter monetary policy to come, but has outlined that it expects the economy to reach full capacity around 2011/12.

The unemployment rate is expected to continue to fall to 5% by end 2010/11 and 4.75% by end 2011/12. These estimates look relatively conservative, with the government highlighting the difficulties absorbing the additional labour force given rapid growth in working age population and an increase in the participation rate.

Wages are expected to recover from the estimate of 2.75% as at June 2010 to be 3.75% at end June 2011 and 4% the year after, taking wages growth back towards average levels. This is subject to change with wages pressure expected to accelerate once unemployment moves back below 5%.

The current account deficit is forecast to narrow in 2010/11 due to the strong growth expected in the terms of trade. The government forecasts the terms of trade to rise 14.25% in 2010/11, to the highest level in 60 years. This is largely due to gains in iron ore and coal prices from robust demand from Asia.

#### Domestic economic forecasts

	Actual 2008/09	Estimate 2009/10	Forecast 2010/11	Forecast 2011/12
GDP %yr	1.3	2.0	3.25	4.0
GNE %yr	1.8	3.75	4.25	4.75
Net exports % cont.	0.6	-0.75	-1.0	-0.75
Terms of trade %/yr	9.6	-3.75	14.25	-3.75
Current acc. deficit % GDP	-3.0	-4.75	-3.75	-5.0
Business investment %yr	6.6	-2.0	7.0	12.5
Unemployment rate % at June	5.7	5.25	5.0	4.75
CPI %yr	1.5	3.25	2.5	2.5
Wages %yr	3.8	2.75	3.75	4.0

Source: Commonwealth Treasury.

On the global economy, the Budget assumes economic growth of 4.25% for 2010/11 and the same for 2011/12, roughly the same as forecasts provided by the IMF in its April 2010 World Economic outlook. The government has highlighted the strength of Asia, but has noted that

The Budget has recognised that an eventual supply side response is expected and this will weigh on key commodity prices over the medium term.

This will likely make the assumptions of the revenue extracted from the RSPT subject to much debate over the forward years, with the uncertainties over the relationship between supply, demand and prices for the bulk commodities.

Over the medium-term, the Budget projects Australian economic growth to return to about trend like growth of 3% and will return to full capacity within the forecast period.

In this Budget the government has returned to the normal methodology of assuming trend GDP growth in the projection period. This was changed in the 2009/10 Budget given the expectations of a period of below trend growth as a result of the global recession and just reiterates the outperformance of the Australian economy compared to international peers. Trend growth is then expected to decline to 2.75% due to an ageing population.

Other long term projections include the terms of trade falling 20% over a 15 year period to just below 2006/07 levels as supply brings down prices over time.

inflation pressures are likely to emerge as slack as been removed and capital flows are accelerated. This is a view shared by the RBA. The advanced economies are expected to be positive, but more subdued with the rebound to be modest compared to previous recoveries.

#### International economic growth forecasts

%yr	Actual 2009	Treasury 2010	Treasury 2011	IMF 2010	IMF 2011
USA	-2.4	3.0	2.5	3.1	2.6
China	8.7	10	9.5	10.0	9.9
EU	-4.1	0.75	1.25	1.0	1.5
Japan	-5.2	1.75	2.0	1.9	2.0
World	-0.6	4.25	4.25	4.2	4.3

Source: Commonwealth Treasury and IMF.

**Bond market implications and debt selling task:**

The improvement in the budget deficit estimates for 2010/11 and beyond implies a substantially reduced bond selling task for the government.

The AOFM has this morning issued a statement detailing their borrowing expectations for 2009/10 and 2010/11. So far in 2009/10 the AOFM has issued \$A46bn in nominal bonds and \$A5.5bn in inflation index linked bonds. For the remainder of the year the AOFM expects to issue a further \$A7bn in nominal bonds, taking total gross bond issuance in 2009/10 to \$A53bn.

For 2010/11 the Budget expects net issuance of Commonwealth government securities (CGS) of \$A55bn. The AOFM expects to issue \$A56bn in nominal bonds in 2010/11, implying a net increase in nominal bonds on issue of \$A37bn, taking the face value of nominal bonds on issue to around \$A163bn as at June 2011.

Nominal bond tenders are expected to be held each Wednesday and Friday through 2010/11, with each tender to range in size from \$A500m-\$A1.2bn. Issuance in 2010/11 is expected to include new nominal bond lines maturing in 2014, 2016, 2023 and 2025.

After issuing \$A5.4bn in inflation indexed bonds (ILBs) in 2009/10, the AOFM expects issuance of ILBs in 2010/11 to total \$A4bn.

The AOFM plans to issue a new ILB line maturing in 2030, with the initial issuance of this bond to be via a syndicated offering. After accounting for maturities, total ILBs on issue is expected to be \$A14.7bn as at June 2011.

We now estimate that total CGS on issue will be around \$A187bn as at June 2011, up from near \$A148bn at June 2010. Further out we now expect total CGS on issue to peak at around \$A200bn in 2011/12. See chart below for details. This is well down on the projected peak of over \$A300bn in 2012/13 that was estimated last year.

The Budget also re-states the government’s commitment to an “efficient and liquid” CGS market, noting that “in the longer term, the government will aim to maintain a liquid CGS market to provide a sound foundation for Australia’s financial system.” This positive commitment to the CGS market is welcome.

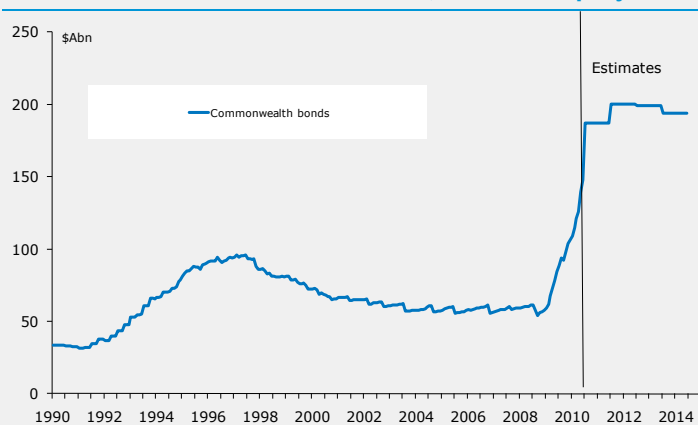
**Commonwealth government borrowing needs and debt issuance**

\$Abn	2009/10	2010/11	2011/12	2012/13	2013/14
Budget outcome	-57.1	-40.8	-13.0	+1.0	+5.4
Maturities*	6.0	18.8	14.0	18.8	12.6
Total funding requirement	63.1	59.6	27.0	17.8	7.2
Bond issues	53.0	56.0	23.0	14.8	4.2
Indexed bond issues	5.4	4.0	4.0	3.0	3.0
Total debt to be issued	63.1	59.6	27.0	17.8	7.2
Total net bond issues	47.0	37.2	9.0	-4.0	-8.4
Benchmark bonds on issue	125.4	162.6	171.6	167.7	159.3
Indexed bonds on issue	11.4	14.7	18.7	21.7	24.7
Total CGS on issue	147.8	187.3	200.3	199.4	194.0

Maturities include: \$A6bn Sept 09 in 09/10, \$A7.6bn Aug 10, \$A10.5bn June 11 and \$A0.7bn Aug 10 indexed in 10/11, \$A14bn April 12 in 12/13, \$A3.25bn Nov 12 & \$A15.5bn May 13 in 12/13, \$A1.25bn Dec 13 & \$A11.3bn June 14 in 13/14

Source: Commonwealth Treasury and CFS GAM Investment Markets Research.

**Commonwealth securities on issue, actual and projected**



Source: Commonwealth Treasury and CFS GAM Investment Markets Research.

**Australian government net debt:**

One of the key areas where Australia has experienced a very different environment to its OECD peers is in the level of net general government debt.

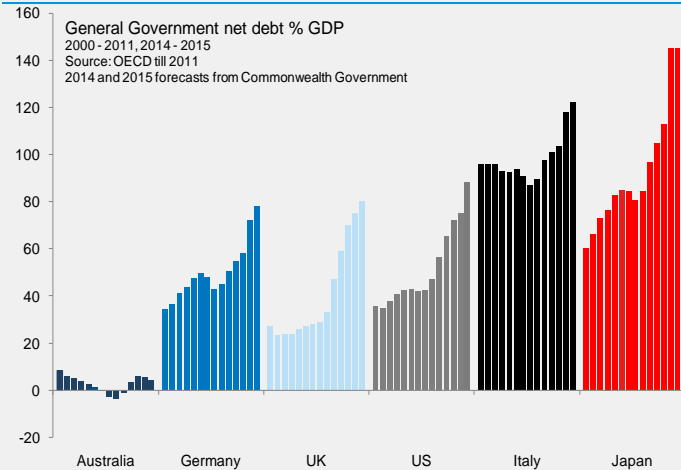
While Europe is currently in the midst of a significant sovereign risk episode, requiring unprecedented intervention by the EU authorities, and even countries such as the UK and US have their share of government debt concerns, Australia’s net government debt remains extremely low.

Australia entered the GFC period, ie. as at June 2008, with a net government asset position of \$A44.8bn or 3.8% of GDP. For June 2009 this was estimated to have deteriorated to a net asset position of just \$A16.2bn, 1.3% of GDP. As at June 2010, this net asset position is now expected to have moved to a net debt position of \$A41.8bn, 3.2% of GDP.

Australia’s net debt position is now expected to rise to \$A78.5bn, 5.6% of GDP, at June 2011 and then peak at \$A93.7bn or just 6.1% of GDP at June 2012.

From 2013/14 Australia's net debt position in \$A terms is now expected to begin declining, ie. the government will start repaying debt in the 2013/14 year. As shown in the chart below, this is in stark contrast to net government debt estimates of around 80% for key countries such as the US, UK and Germany and well below the 100%+ levels in countries such as Italy, Greece and Japan.

**General governed net debt: Australia vs OECD nations**



Source: Commonwealth Treasury

**Equity market implications:**

The positive macroeconomic backdrop of the Budget should be broadly positive for the Australian equity market. The Australian economy is set to record around trend growth over the next two years, with the RBA already moving the cash rate back towards a more appropriate setting. While the earlier return to surplus is a welcome development, a more rapid pace of fiscal consolidation should not alter the RBA's current policy path. The reduction in the corporate tax rate is also a broad positive for equities, as is lower government bond issuance - which should leave more room for corporate issuance in the market.

In terms of new initiatives announced in the 2010/11 Budget, there will be few significant implications for the equity markets. The resources sector, not surprisingly will be one of the biggest negatively impacted sector through the preannounced RSPT, while there will also be impacts on the Health Care sector and also on Banks and Wealth Managers.

**Resources**

Debate within equity markets continues around the impact and implementation of the RSPT. While the government has reiterated its determination to implement the system, questions remain about the definition of a "super" profit and the exact non-renewable resources it will cover. There is speculation the government may negotiate to exclude some low value non-renewable resources, while the government appears to be sticking to its definition of a super profit is anything above the long term government bond yield. It is safe to say uncertainty will continue to impact on markets for coming months, but growth for natural resources will likely continue to support demand, prices and the development of this sector.

The new RSPT will be paid at 40% on the realised value of resource deposits, measured as the difference between the revenues generated from resource extraction and associated costs (including capital expenditure).

The resource companies will be rebated for existing state based resources taxes. This new tax is proposed to be introduced on 1 July 2012 after extensive consultation as to what a "super profit" is.

The corporate tax rate will also be reduced from 30% to 28%, an exploration rebate will also be introduced as well as further assistance for small miners. The larger miners with long standing mining operations with a higher return from these assets will be hit harder under the new RSPT. Small miners could be beneficiaries.

The proposed introduction of this new tax has led to considerable uncertainty within the market and has put in question future investment plans in the Australian resources sector. If this does happen, it could place some doubt over the forecasted revenue gains for the government from the RSPT and the projected return back into surplus.

**Banks**

Two key initiatives that will impact on the major banks are the lowering of tax for savings and the gradual phasing down of the interest withholding tax.

In relation to the tax break on savings, this is a positive initiative and a step in the right direction and might increase deposit funding for the banks and reduce funding costs at the margin. This was a recommendation from the Henry Tax Review, but the government has placed a cap at \$A1,000 (which was not recommended by Henry). This interest is equivalent to roughly \$A16,666 in savings at a 6% interest rate and is not expected to increase the marginal propensity to save or change the allocation of savings between bank deposits and superannuation.

The phasing down of the interest withholding tax should help funding and competition within the bank sector, especially for foreign banks or those with offshore funding.

**Wealth Managers**

The lift in the SGC from 9% to 12% is a positive for the industry, as were other changes to superannuation focused on low income earners through a \$A500 government contribution to offset the SG contribution tax and the extension for workers older than 50 to make \$A50,000 a year of concessional contributions if they have a super balance under \$A500,000. The government continues to support the importance of superannuation which is a clear positive for the industry.

**Health**

On a social level the increased health funding is a positive for all Australians. In terms of the implications for the equity market cuts to the Pharmaceutical Benefits Scheme is a negative for generic drug manufacturers and for pharmaceutical wholesalers.

**Consumer Sector**

Consumers are a small winner from the Budget, with the preannounced income tax cuts to be introduced on 1 July 2010. Another small positive is the interest savings on bank deposits.

However, the outlook for the Australian economy provided by both the RBA and the government does suggest interest rates will continue to move higher over coming years with an expected move to restrictive territory by the RBA sometime in 2011. This is expected to see more moderate consumer spending and house prices to make room for the expected terms of trade boost and the growth in the resources sector.

**Budget details, 2010/11 and beyond:**

The underlying cash budget deficit for 2010/11 is estimated at \$A40.8bn, or 2.9% of GDP.

This underlying cash budget deficit represents an improvement of \$A16.3bn from the most recent estimate for the 2009/10 budget deficit of \$A57.1bn, 4.4% of GDP.

This improvement in the budget deficit comes mainly from parameter changes, ie. the underlying improvement in the economy, which account for \$A17.7bn in improvement from the 2010/11 budget deficit estimate made this time last year. In contrast, policy changes have had a net impact of adding \$A1.4bn to the 2010/11 deficit.

In 2010/11, Revenues are estimated to be \$A321.8bn, or 22.9% of GDP. This revenue projection is little changed from the 22.7% of GDP estimated for 2009/10. However, for 2011/12 revenues are projected to rise to 24.0% of GDP and then increase further to 24.6% of GDP in 2013/14. This increase in revenue is expected to flow mainly from the RSPT to be introduced in 2012/13, the increase in cigarette excise and revenue that will flow naturally from the stronger economy.

Outlays are estimated at \$A354.6bn, 25.2% of GDP, in 2010/11, down from 26.5% of GDP in 2009/10. Outlays are then expected to decline to 24.0% of GDP by 2013/14.

**Budget by the numbers**

\$Abn	2009/10 Original Est.	2009/10 Budget	2010/11 Budget	2011/12 Budget	2012/13 Budget	2013/14 Budget
Revenue	290.6	294.2	321.8	356.4	381.9	407.2
- % GDP	24.7	22.7	22.9	24.0	24.3	24.6
Outlays	338.2	343.1	354.6	364.6	381.0	398.0
- % GDP	28.7	26.5	25.2	24.5	24.3	24.0
Underlying cash balance	-57.6	-57.1	-40.8	-13.0	+1.0	+5.4
- % GDP	-4.7	-4.4	-2.9	-0.9	+0.1	+0.3
Net debt/assets	53.7	41.8	78.5	90.5	93.7	90.8
- % GDP	4.6	3.2	5.6	6.1	6.0	5.5

Source: Commonwealth Treasury.

The government has also highlighted its strategic path back to surplus. The aim remains to bank increases in tax revenue that are naturally associated with an economic recovery and the RSPT and by limiting real growth in spending to 2% pa, on average.

This should see a return to surplus in 2012/13, well ahead of the estimate last year of a surplus in 2015/16.

The Budget contains revised net government debt estimates that represent a substantial improvement on the forecasts made in the 2009 Budget. This time last year the governments net asset position was estimated at \$A4.7bn, 0.4% of GDP, at June 2009, when the actual outcome was a net asset position of \$A16.15bn, 1.3% of GDP.

For June 2010 the government is now expected to have a net debt position of \$A41.8bn, 3.2% of GDP and then up to \$A78.5bn, 5.6% of GDP, at June 2011.

Net debt is now expected to peak at \$A90.5bn, 6.1% of GDP at June 2012 and then at \$A93.7bn, 6.0% of GDP at June 2013. This projected peak in net debt is close to half of that projected in last year's budget at \$A188.2bn, 13.6% of GDP, at June 2013.

This is clearly a substantial improvement in Australia's net debt position and stands in contrast to the high and unsustainable net debt positions of most developed nations.

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