Australia’s 2017/18 Budget

At a glance...

- Budget deficit of $29.4 billion forecast for 2017/18
- $75 billion in infrastructure spending over the next 10 years
- $8.4 billion Melbourne to Brisbane inland rail project
- The Medicare Levy will rise from 2 to 2.5% of taxable income from 1 July 2019
- Levy on the five biggest banks (CBA, NAB, WBC, ANZ, MQG) to raise $6.2 billion over the next four years
- Extending the $20,000 instant asset write-off for businesses with annual turnover less than $10 million till 30 June 2018
- Tougher international tax laws on multinationals to crackdown on tax avoidance
- UK style $1 billion National Housing Infrastructure Facility
- A $5,000 vacant property (ghost tax) levy
- First homebuyers will get a tax cut on deposit savings up to $30,000
- Developers will be barred from selling more than 50% of a new project to foreign investors
- Universities will pay an efficiency dividend of 2.5% in 2018 and 2019
- An extra $18.6 billion in school funding over the next decade
- University students will contribute an additional 7.5% to the cost of higher education, phased in over four years
Federal Budget 2017/18:
‘Making the right choices’

Making Sense of it
The Federal Budget is hardly the most riveting document you are ever likely to read. Sure you know it’s important, but the problem is that it’s a huge document with countless facts, figures and tables. And when it comes to analysis, economists seem to be writing for other economists; and accountants writing for other accountants.

It’s always important to remember that it is just a budget, the same that any household or company would prepare. Assumptions are made; forecasts are taken; and events can change.

When the 2015/16 budget was first conceived in May 2012, a surplus of $7.5 billion was projected. Today, a deficit of $37.6 billion is tipped for the current year ending in June.

And then there is the small matter of politics. The Government outlines the measures that it believes are important for the short and medium-term health of the economy. But given the absence of a majority in the Senate this means that the Government needs to seek agreement with other parties for the measures to become law.

And ideally the Government should be laying out a medium-term strategy, especially to reform the tax base, but lack of agreement between the major parties is delaying this essential planning.

Still, at the end of the day most people want to know whether it’s a “good” budget and what’s in it for them. It doesn’t matter whether you are a student, pensioner or CEO of a major company.

So this analysis is different.

Sure, there are the usual tables, graphs, facts and figures. But we reckon that there are only two questions most people want answered and that’s where we will be concentrating:

Did the Government get it right?
Who are the winners and losers?

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1. The Analysis

Did the Government get it right?

Making the right choices.

- Each budget has a theme. Last year – ahead of the Federal Election – the theme of the budget was “Jobs and Growth”. This year the mantra is “Making the right choices”. And terms like fairness, opportunity and security are effectively sub-themes of the budget.

- Certainly we do elect governments to choose the spending and taxing measures that are in the best interests of the nation – and, importantly, in the best interests at the current point in time. Because the options will indeed change in line with the economic environment. At the current time the Reserve Bank is maintaining an easy monetary stance (low interest rates) to reflect the fact that the economy is growing slower than the optimal pace in a low inflationary environment.

- Overall businesses say they are doing well. In fact business conditions are at 9-year highs and business confidence is at 7-year highs according the latest NAB survey.

- But consumer spending is soft, reflecting the fact that wages are growing at a historically slow pace and just tracking underlying inflation. Unfortunately increases in certain living costs such as power (electricity and gas), healthcare and home purchase are causing angst for many consumers. But affordability of items such as food, clothing and transport are the best on record.

- Customarily governments take a hard-line approach on spending and taxes in the first budget of a new term in office. But this is not the environment for such an approach. Rather the government must chip away at the budget deficit over time by fostering stronger economic growth (and thus higher revenues) and showing discipline on recurrent spending.

Practicality not Ideology

- And indeed that is what the government is doing. The government says it has been listening, and in this budget it is delivering practical solutions to issues or concerns. If you like, ideology has been abandoned in favour of practicality. Not completely, but there has been a massive shift.

- Certainly the government seems to be keener to do deals than in the past. In the past it has been a case of “my way or the highway”. Now the Government is willing to do deals to get measures through. A case in point was the deal brokered with the Senate at the end of March to pass at least a chunk of the company tax cuts.

- And then there was the recent change of heart by
the Federal government to support the Western Australian government’s infrastructure plans.

- The government continues to pursue the full enterprise tax plan. But it is more likely to negotiate with Senators to determine what is possible, or what can be traded to get the measures through.
- The abandonment of the so-called ‘zombie measures’ – the $13 billion in unlegislated savings measures – shows that the government wants to get on with the business of governing. The government has got the message that the days of adversarial politics are over and a more conciliatory approach is required.
- Indeed the government has called on parties to move to the centre (the centre of the political spectrum) so measures can be agreed and implemented to take the economy forward: “we’ll be inviting the Parliament to join the Government in the middle in our bid to ensure that we can address these challenges together.”

The measures

- The Shocks: The levy on the big 5 banks and the projected increase in the Medicare levy were surprises. But surprises that the Opposition is likely to support – further evidence that the Government is taking a pragmatic approach to budget repair and funding infrastructure and the NDIS. Unfortunately the bank levy will affect all Australians in some form, especially investors and superannuants.
- Infrastructure spending: The government is right to focus on the need to build our infrastructure assets. And especially on transport assets. This is what the current and previous Reserve Bank Governors have advocated for some time. If travel time is reduced in cities and between cities then families can live further out from city centres.
- The key area of debate is whether the ‘right’ infrastructure is being selected and built. This will be an issue for Infrastructure Australia. And encouragingly the community can track the status and progress of key infrastructure projects at the National Infrastructure Construction Schedule website: www.nics.gov.au
- Housing affordability: There is only so much the Government can do. The issue is one of supply and demand. Efforts should be concentrated on improving the supply response rather than constraining demand. And that is what the government is doing. There is funding for utilities infrastructure, increased land production; reducing barriers to downsizing and help for home buyers to save for a deposit. All very positive.
- Education: Investment in our children’s’ education is important in order so that the nation can continue to expand and intensify the industrial base and develop knowledge-based sectors in Australia. The world is increasingly globalised – a trend that will only grow over time.
- Universities: Education exports continue to grow in importance. It is very much in Australia’s interests to have efficient universities that can increase their reliance on their own funding rather than that of the Federal government.
- Company tax cut: Encouragingly some of the government’s enterprise tax plans passed the Senate at the end of March. The hope is that the remainder of the measures can proceed – no doubt with some deals being negotiated to secure passage of legislation. The extension of the $20,000 instant asset write-off for another 12 months is a positive move. The hope is that small and medium-sized businesses embrace lower taxes and boost employment and investment.

Looking ahead

- It is clearly taking time for the budget deficit to be reined in. But the issue hasn’t been so much ‘excessive’ growth of expenses, rather the lack of solid revenue growth – especially company tax revenues.
- A surplus is forecast for 2020/21. Clearly that is some way off. But the fact that the government continues to set a path for surplus while growing the economy, funding infrastructure and the NDIS is an impressive balancing act.
Who are the winners? (Source: Budget Papers, AAP)

Companies
- Last year’s proposed tax cuts for companies were passed in part by the Senate at the end of March
- Extending the $20,000 instant asset write-off for businesses with annual turnover less than $10 million for a further 12 months till 30 June 2018.

High-income earners
- The two per cent deficit levy on higher income earners, introduced in 2014, will be removed as legislated.

Primary & secondary schools
- The government will pump an extra $18.6 billion into schools over the next decade under a plan labelled ‘Gonski 2.0’. More than 99 per cent of schools will see a year-on-year increase in funding, and, on average, per-student funding will grow 4.1 per cent a year over a decade.

Home buyers
- First-time home buyers will receive much-needed help to get a foot on the property ladder as prices continue to surge in east coast cities. People saving to buy their first home will get a tax cut on deposit savings up to $30,000.
- Incentives to encouraging older people to downsize by giving tax breaks if they funnel proceeds from selling their home into their pension funds. Other measures include releasing surplus defence land on the outskirts of Melbourne, and tax discounts for investments in affordable housing

Health
- The cost of visiting the doctor will drop as a freeze on Medicare rebates are lifted.

Defence force veterans
- Government to provide $50 million to help defence force veterans battling health conditions. Defence spending will reach 2 percent of GDP in 2020-21, three years ahead of schedule

Western Sydney
- Government will build the second Sydney airport at Badgerys Creek

Western Australia
- Government has also agreed to a $2.3 billion road and rail package with Western Australia covering 17 projects via a $1.6 billion injection from the Commonwealth.

Young parents
- Support for young parents to get jobs by expanding the successful ParentsNext programme from 13,000 vulnerable young parents to 68,000 in more than 20 new locations, especially those with high Indigenous populations

Who are the losers? (Source: Budget Papers, AAP, Bloomberg)

Welfare
- Welfare recipients that fail to honour their job-search obligations will be at risk of losing benefits. The government will also trial drug testing for 5,000 new welfare recipients.

University students:
- Students will have to shoulder a greater share of the cost of their degrees and start paying back loans at a lower income threshold.
- University students will contribute an additional 7.5 per cent, to the cost of higher education - phased in over four years

Universities:
- Universities will pay an efficiency dividend of 2.5 per cent in 2018 and 2019, which will be absorbed by universities and not passed on to students. The higher education reform will lead to a saving of $3.8 billion through to June 2021.

Banks:
- The five biggest banks in Australia are being hit with a new levy on liabilities that will raise A$6.2 billion over four years. From July 1, ANZ Bank, Westpac, National Australia Bank, Commonwealth Bank and Macquarie will face a 6 basis-point levy on customer deposits above A$250,000, corporate bonds, commercial paper, certificates of deposit and Tier 2 capital instruments. A new body, the Australian Financial Complaints Authority, will be tasked with resolving disputes, and banks will face fines of as much as A$200 million for misconduct
The Federal Treasurer has tasked the Productivity Commission to hold an inquiry into competition in Australia’s financial system.

**Businesses Employing Overseas Workers:**
- As well as tightening visa requirements for skilled workers coming to Australia, the government will impose an annual fee of as much as A$1,800 on businesses that hire them. The $1.2 billion raised over four years will fund training for Australian workers.

**Developers’ Overseas Sales:**
- Developers will be barred from selling more than 50 percent of a new project to foreign investors. The government will also introduce a so-called “ghost house” tax of A$5,000 on foreign investors who fail to occupy or lease a property for at least six months of the year.
- Strengthening GST laws to stop some property developers from avoiding obligations by making purchasers of newly constructed residential properties or new subdivisions pay the GST directly to the ATO as part of settlement.

**Tax-dodgers:**
- The government says it will stamp out hybrid tax abuse by multinational banks and insurance companies that seek to exploit tax differences between jurisdictions. It’s also extending the Multinational Anti-Avoidance Law to cover corporate structures involving foreign partnerships and foreign trusts.

**Tax Payers:**
- The Medicare levy will rise 0.5 percentage points to 2.5 percent from 1 July 2019 to help fund the National Disability Insurance Scheme.

**Migrants:**
- Citizenship requirements will also be strengthened with a renewed focus on Australian values. Stricter residency rules for new migrants to access Australian pensions. Changes include higher English language attainment, increased residency periods, and a stronger, more meaningful citizenship test.

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**Affordable housing for all Australians**

**Unlocking supply**
The Government will help boost the supply of housing and will encourage a more responsive housing market by:
- Providing $1 billion to fund critical infrastructure, such as water infrastructure, that will speed up the supply of housing.
- Working with the States to deliver planning and zoning reforms that speed up development.
- Releasing suitable Commonwealth land, starting with Defence land at Maribyrnong in Melbourne, for housing development.
- Investing more than $70 billion from 2013-14 to 2020-21 on transport infrastructure across Australia.
- Specifying housing supply targets in new agreements with the States and Territories.

**Creating the right incentives**
The Government is creating the right incentives to improve housing outcomes, including:
- Helping first home buyers to save a deposit through voluntary contributions into superannuation.
- Reducing barriers to downsizing to free up larger homes for families.
- Improving the targeting of housing tax concessions.
- Strengthening the capital gains tax rules so that foreign investors pay their fair share of capital gains tax.
- Reforming foreign investment rules to discourage investors from leaving their property vacant.
- Supporting economic growth and jobs to boost real wages.

**Improving outcomes for those most in need**
The Government will improve outcomes in social housing and address homelessness by:
- Requiring States and Territories to meet social and affordable housing targets under revised funding arrangements.
- Providing $375 million to give funding certainty to providers of homelessness services.
- Establishing a National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator.
- Providing new tax incentives to increase private investment in affordable housing.
2. Taxing & Spending

What is included in the budget?
(Quotes taken largely in full from Budget papers)

Airports, road, rail

- The government will use "good" debt to finance a range of infrastructure projects. Top of the list is Sydney's second airport at Badgerys Creek. Following the Macquarie group’s decision to forgo first dibs on the airport in the city’s west, the government will go it alone on the multi-billion project that will take nine years to complete. Government has also agreed to a $2.3 billion road and rail package with Western Australia covering 17 projects from a $1.6 billion injection from the commonwealth.
- Work on one of the largest investments ever seen in regional Australia, the Melbourne to Brisbane Inland Rail, will commence in 2017-18. The Government will provide an additional $8.4 billion equity investment to the Australian Rail Track Corporation to deliver Inland Rail.

Agriculture

- The Government will provide $28.5 million to establish the Regional Investment Corporation to streamline the delivery of $4 billion in concessional loans. This includes the $2 billion National Water Infrastructure Loan Facility and the $2 billion Farm Business Concessional Loan Scheme. These loans will help secure growth, investment and resilience in rural and regional communities.

Defence

- In 2020-21, the Government will meet its 2013 election commitment to increase Defence spending to 2 per cent of GDP— three years earlier than the Government first promised. The Government will provide $350 million to help defence force veterans battling health conditions.

Health

- To secure the Commonwealth’s contribution to funding the NDIS, from 1 July 2019 the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income. This means that one fifth of the revenue raised by the Medicare levy will be directed to the NDIS Savings Fund, to ensure the Commonwealth’s NDIS contribution is fully funded.
- The freeze on Medicare rebates that GPs are paid for bulk-billed consultations will be lifted. The Government will provide $1 billion to reintroduce indexation for certain items on the MBS. This will commence with General Practitioner (GP) bulk billing incentives from 1 July 2017, to ensure that GPs are incentivised to bulk bill children under the age of 16 and concession card holders.
- The government plans to encourage doctors to prescribe generic medicines, rather than big-name brands, which could save the budget $1.8 billion. That saving will be used to fund the listing of new medicines on the taxpayer-subsidised Pharmaceutical Benefits Scheme. The 2014 budget plan to raise the price of prescription drugs has been dumped.
Economic Insights: Australia’s Budget 2017/18

- The Commonwealth will increase hospitals funding by an additional $2.8 billion over four years.
- A package of more than $165 million will continue to prioritise mental health support and prevention.
- $1.2 billion will be provided for new and amended listings on the PBS, including more than $510 million for a new medicine for patients with chronic heart failure.

**Housing**
- Releasing suitable Commonwealth land, starting with Defence land at Maribyrnong in Melbourne, for housing development.
- Helping first home buyers to save a deposit through voluntary contributions into superannuation.
- Reducing barriers to downsizing to free up larger homes for families.
- Reforming foreign investment rules to discourage investors from leaving their property vacant.
- Providing $375 million to give funding certainty to providers of homelessness services.
- Establishing a National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator.

**Immigration and Border Protection**
- The Government will strengthen Australian citizenship arrangements by; introducing a new general residence requirement for an applicant to demonstrate a minimum of four years’ permanent residence prior to their application for citizenship; strengthening citizenship application requirements; introducing a new Australian citizenship test; introducing a revised Pledge of Commitment; and introducing a revised Australian Values Statement.

**Schools**
- The government will pump an extra $18.6 billion into schools over the next decade under a plan labelled ‘Gonski 2.0’. More than 99 per cent of schools will see a year-on-year increase in funding, and on average per-student funding will grow 4.1 per cent a year over a decade. Federal funding will grow from $17.5 billion in 2017 to $22.1 billion by 2021, and $30.6 billion by 2027. The per student base amount in 2018 will be $10,953 for primary students and $13,764 for secondary school students. About two dozen schools will lose some of their federal funding.
- The Government will invest $37.3 billion in child care to help ease cost of living pressures for around one million Australian families, including those that need before and after school care for their children.

**Tax**
- Legislation for the third tranche of the government’s 10-year corporate tax plan will be re-introduced to parliament in budget week. The two per cent deficit levy on higher income earners, introduced in 2014, will be removed as legislated.
- Tougher international tax laws on multinationals to crackdown on tax avoidance.
- Extending the $20,000 instant asset write-off for businesses with annual turnover less than $10 million for a further 12 months till 30 June 2018.
- Banks will be subject to a 6 basis point levy on customer deposits (over 250,000 AUD), corporate bonds, commercial paper, certificates of deposit and Tier 2 capital instruments. The levy is expected to raise $6.2 billion over the coming 4 years.

**Universities**
- Universities will pay an efficiency dividend of 2.5% in 2018 and 2019.
- University students will contribute an additional 7.5% to the cost of higher education, phased in over four years.

**Welfare**
- Welfare recipients who persistently dodge their job-seeking obligations will be targeted through harsh punishments. Trial drug testing for 5,000 new welfare recipients.

**'Zombie measures’**
- The government dumped the $13 billion in unlegislated savings, the so-called "zombie" savings measures, some of which have been stuck in the budget papers since 2014.

**Identified Savings**
- All new spending measures have been offset by savings in payments, not by policy increases to tax revenue. The overall impact of new policy decisions on payments in this Budget is an improvement to the bottom line of $6.3 billion over the four years to 2020-21, with all increases in expenditure offset by savings in payments. Since the 2015-16 MYEFO, the underlying cash balance has improved by $11.4 billion over the forward estimates.
2. Taxing & Spending

Outcome, Payments & Revenues

<table>
<thead>
<tr>
<th>BUDGET BOTTOM LINE</th>
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<tbody>
<tr>
<td>% of GDP</td>
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<tr>
<td>Net Debt - $B</td>
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<tr>
<td>% of GDP</td>
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Source: Budget Papers
3. The Economy

### Economic Assumptions

<table>
<thead>
<tr>
<th>Economic growth (% change)</th>
<th>Last year 2015/16</th>
<th>This year 2016/17</th>
<th>Next year 2017/18</th>
<th>And 2018/19</th>
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<tbody>
<tr>
<td>Inflation</td>
<td>2.60</td>
<td>1.75</td>
<td>2.75</td>
<td>3.00</td>
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<tr>
<td>Wages (% change, year to June quarter)</td>
<td>1.00</td>
<td>2.00</td>
<td>2.00</td>
<td>2.25</td>
</tr>
<tr>
<td>Unemployment (%, June quarter)</td>
<td>2.10</td>
<td>2.00</td>
<td>2.50</td>
<td>3.00</td>
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<tr>
<td></td>
<td>5.70</td>
<td>5.75</td>
<td>5.75</td>
<td>5.50</td>
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Source: Budget papers, CommSec

**Are the economic assumptions reasonable?**

- In short, yes. In fact, the forecasts are basically conservative and therefore eminently achievable. But the expected lift in wage growth is an area for debate.
- Last year Federal Treasury expected the economy to grow by around 2.5 per cent in 2016/17. Inflation was tipped to grow around 2.0 per cent with wages lifting around 2.5 per cent.
- Economic growth and wages will probably end up a bit below forecasts. Brexit, the Federal Election and US Election were factors restraining momentum in the economy. And spare capacity remains in the job market.
- In 2017/18, the economy is expected to grow around 2.75 per cent. Inflation may remain toward the bottom-end of the Reserve Bank’s 2-3 per cent target band while modest improvement is expected in the job market.
- The Reserve Bank currently expects economic growth of 2-3 per cent in 2017 and between 2.5-3.5 per cent in 2017/18. Underlying inflation is generally expected to be between 1.5-2.5 per cent through to June 2018.
- The CBA Group expects economic growth to lift from 2.0 per cent in 2016/17 to 3.1 per cent in 2017/18.
- One forecast worth focussing on is the estimate of nominal GDP – the assumption that is important for projected tax receipts. In the year to the December quarter 2016, nominal GDP grew by 6.1 per cent – the fastest rate in five years and faster than the 20-year average of 5.9 per cent. The hope is that growth of nominal GDP is getting back to “normal”.
- Still, in 2017/18, Federal Treasury expects nominal GDP to grow by only 4 per cent and then similarly grow by 4 per cent in 2018/19. The forecasts appear conservative.
4. Global backdrop

Global economy gathers steam

- In April 2017, the International Monetary Fund (IMF) forecast the global economy to expand by 3.5 per cent in 2017, after growing by 3.1 per cent in 2016 and by 3.4 per cent in 2015. Growth of 3.5 per cent is in line with the average growth rate recorded over the past 35 years.
- In 2018, the IMF tips growth of 3.6 per cent before lifting 3.7 per cent in 2019, 3.7 per cent in 2020, 3.7 per cent in 2021 and almost 3.8 per cent in 2022.
- The modest growth of the global economy in the past five years (3.3 per cent average growth since 2012) has to be viewed as disappointing. This is especially the case when viewed against the context of expansionary monetary and fiscal policies, particularly the former.
- China is tipped to grow by 6.6 per cent in 2017 and 6.2 per cent in 2018 after 6.7 per cent growth in 2016.
- The Euro area is expected to exhibit stable growth, with GDP tipped to lift by 1.7 per cent in 2017 and by 1.6 per cent in 2018 after 1.6 per cent growth in 2016.
- But firmer growth is expected in the US. The IMF tips growth of 2.3 per cent in 2017 and 2.5 per cent in 2018 after expanding 1.7 per cent in 2016. The Federal Reserve started lifting interest rates in December 2015. There was one rate hike in December 2016 and another in March 2017. Economists tip another two rate hikes in 2017 but certainly the timing and frequency of rate changes will have key implications for financial markets.
- Federal Treasury influences the IMF and OECD forecasts for Australia. But looking at The Economist May 2017 poll of forecasters, the Australian economy is tipped to grow by 2.7 per cent in 2017 and 3.0 per cent in 2018. If realised, Australian economic growth will be the fastest of the major developed economies in 2018.
Economic Insights: Australia’s Budget 2017/18

5. Nation building funds and GST

**Government investments**

- The value of all the nation building funds currently stand at $148 billion, up from $133.1 billion a year ago.
- The **Future Fund** was set up to provide for the unfunded superannuation liabilities of Commonwealth public servants. As at March 31 2017, the Future Fund stood at $129.6 billion, up $12.2 billion over the past year or 10.4 per cent.
- The **Building Australia Fund** was set aside for “the creation or development of transport, communications, energy, and water infrastructure and in relation to eligible national broadband matters”. As at March 31 2017, the Building Australia Fund stood at $3.8 billion, up from $3.67 billion over the year.
- The **Education Investment Fund** was set aside to make payments for education infrastructure. As at March 31 2017 the Education Investment Fund had assets of $3.80 billion, up from $3.7 billion over the year.
- The **Medical Research Future Fund (MRFF)** was set up on January 1 2015 with the aim to grow the fund to $20 billion. The first contribution to the MRFF was made on September 22 2015 in the form of a transfer of $1.01bn from the Health and Hospitals Fund. Since then there have been two transfers from government of $2.1bn on 1 December 2015 and $1.3bn on 26 August 2016. As at March 31 2017 the MRFF was valued at $4.6 billion.
- The **Disability Care Australia Fund (DCAF)** was established to provide support for Australians with significant and permanent disability. The DCAF received its first contribution on November 26 2014. As at March 31 2017 the DCAF had received contributions of $6.2 billion, up from $5.18 billion over the year.

**Goods and services tax (GST)**

- To some extent this is the “forgotten” tax. Despite the fact that the GST is the third biggest revenue generator behind personal tax and company tax, it tends not to feature in budget analyses. All of the revenue goes to the states and territories so it certainly has a major influence on the ability of governments to spend across the community.
- Receipts from the **Goods and Services Tax** stood at a record $62.0 billion in the twelve months to March, up 5.7 per cent on a year ago, and above the 5.4 per cent growth over the last twelve months. The Government has forecast GST receipts of $62.41 billion for the entire 2016/17 year.
- Actual GST receipts for the nine months to March stood at $46.331 billion, just below the Budget ‘profile’ of $46.349 billion.
- “Receipts from GST are forecast to grow by 3.5 per cent in 2016-17 and 5.2 per cent in 2017-18. Compared with the 2016-17 Mid-Year Economic and Fiscal Outlook, receipts are expected to be around $500 million lower in 2016-17, $400 million lower in 2017-18 and $2.5 billion lower over the four years to 2019-20.” “Lower receipts reflect weaker-than-expected collections, lower nominal consumption and, in 2018-19, a forecast fall in dwelling investment.”

### Investing for the future

<table>
<thead>
<tr>
<th>Assets as at March 31 2017</th>
<th>$billion</th>
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<tr>
<td>FutureFund</td>
<td>129.64</td>
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<tr>
<td>Education Investment</td>
<td>3.80</td>
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<tr>
<td>Building Australia</td>
<td>3.80</td>
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<tr>
<td>Medical Research</td>
<td>4.63</td>
</tr>
<tr>
<td>Disability Care Australia</td>
<td>6.20</td>
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</table>

*Source: futurefund*
6. Selected Charts

Stalling company tax revenue

Lifting from the floor?

Education wins the battle

Onward & upward

Encouraging

Legacy of a larger budget deficit
7. Impact – Rates, $A, Shares

Interest rates
- The Federal Budget has few implications for interest rate settings. The government plans to maintain discipline on growth in recurrent spending while hoping that firmer domestic and international economic growth rates flow through to stronger tax revenues. Fiscal or budget policy settings don't provide complications for monetary policy.
- The Reserve Bank could leave interest rate setting unchanged over 2017. While the Bank maintains a “neutral” monetary policy stance at present, rate hikes appear far more likely than rate cuts in 2017/18. The Reserve Bank expects inflation to hold between 1.5-2.5 per cent over the next year while economic growth is expected between 2.5-3.5 per cent over the period. The “speed limit” of the economy is currently around 2.75 per cent.

Australian dollar
- Rating agency Moody’s has indicated that the budget measures and strategy are consistent with Australia maintaining its AAA credit rating. Apart from that, the Federal Budget has few implications for the currency. We would argue that projected path to budget surplus, still low government debt compared with other advanced nations and the sharp improvement in the balance of payments all provide solid supports for Australia’s AAA credit rating.
- The more important influences on the Aussie dollar over the next year are Chinese economic growth, the tax plans of US President Trump and US monetary policy.
- The Chinese economy continues to record healthy growth with consumption taking on a bigger role as a growth driver from production and exports. Building and construction are also recording solid growth rates. But as the Reserve Bank notes “high level of debt (is) continuing to present a medium-term risk.”
- The US Federal Reserve is expected to tread cautiously on rate hikes. Inflation remains low despite a tighter job market. Official rates may be lifted twice more over 2017 but much will depend on the translation of wage growth to underlying prices.
- CBA group currency strategists expect the Aussie dollar to continue to hover in the mid-70s against the US dollar over the next year.

Sharemarket implications
- The government has handed down a less contentious budget than those delivered over recent years. If budget measures generate less community debate and not obstructed by the Senate then confidence levels will be supported. At present, business conditions are at 9-year highs with business confidence at 7-year highs.
- Increased spending on infrastructure is positive for a raft of industry sectors including building materials, transport, industrials, developers & contractors and consumer discretionary sectors.
- The support for first home buyers including funding of crucial infrastructure and release of land should support builders, contractors and developers.
- The staggered lift in the freeze on Medicare rebates for doctors’ visits and medical procedures should serve to support demand for medical services and boost revenues for hospital and health service providers.
- The Productivity Commission inquiry into competition and concentration in banking and the levy on the big 5 banks are likely to restrain investor enthusiasm for operators in financial services sectors.

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The power of dividends

Australian short-term interest rates