Australia

1. Economic situation

Australia's economy has been one of the most resilient in the OECD during the recent economic crisis, boosted by demand for its commodities from China. The country recorded only a solitary quarter of economic contraction, with growth increasing 1.2% in 2009 (Figure 1A).

Australia recorded consistent fiscal surpluses in the years leading up to the economic crisis due to favourable economic circumstances and a sound fiscal framework. In 2009, the fiscal balance shifted into negative territory, with Australia recording a deficit of 4.0% of GDP (Figure 1B).

Gross debt has remained relatively stable at around 20% of GDP, significantly below the OECD average (Figure 1C). The Australian economy rebounded by 3.1% from June 2009-June 2010, and the OECD projects it to experience solid growth again in 2011 boosted by domestic demand and a booming export sector.

Figure 1. **Key economic indicators**

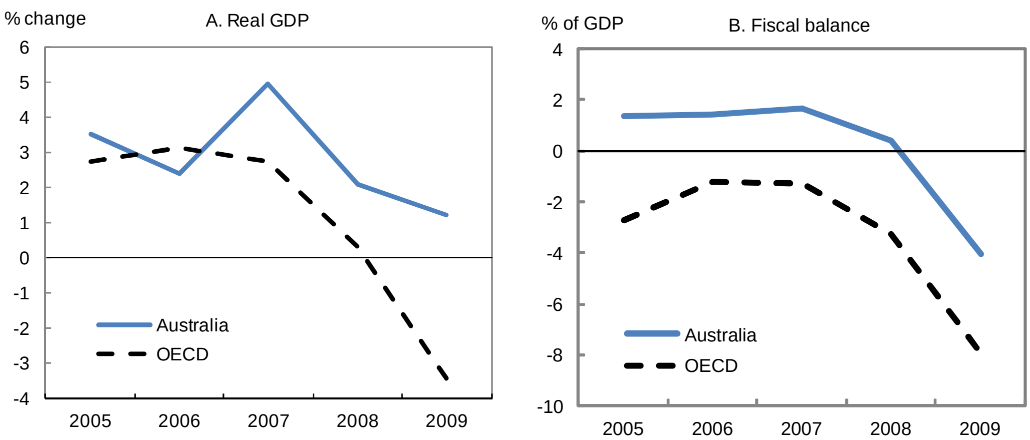
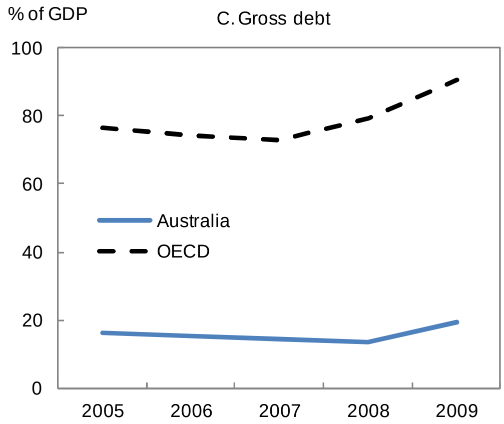


Figure 1. **Key economic indicators** *(cont'd)*



Notes: Fiscal balance and gross debt are general government financial balance and gross financial liabilities in per cent of nominal GDP.

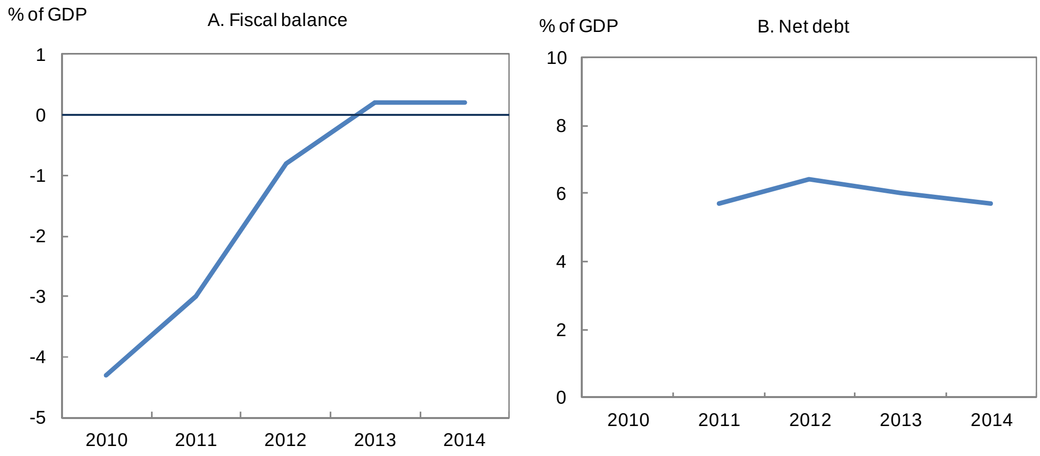
Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), doi: 10.1787/data-00533-en.

2. The government's fiscal consolidation strategy

The key objective of Australia's deficit exit strategy is to limit expenditure growth by introducing a 2% cap on annual real public spending growth until the budget returns to surplus and while the economy is growing at or above trend, by retaining the average 2% annual spending cap until budget surpluses are at least 1% of GDP. Based on current projections, the real spending cap would remain in place until 2015-16. Australia's fiscal strategy also focuses on returning to budget surpluses over the medium term. The May 2010 budget projected a small surplus by 2012-13, assisted by strong prospects for economic growth and the corresponding increase in tax revenue growth that would be generated. The government is also targeting an improvement in Australia's financial net worth over the medium term and plans to keep taxation (as a share of GDP) below the 2007-08 level, on average.

The solid recovery in economic growth and tax receipts is expected to see the fiscal balance turn positive over the period 2012-13. The projected return to budget surplus largely relies on the expected increase in nominal revenues and the government spending cap, with little need for explicit spending or taxation measures. The budget is projected to recover from a deficit of 4.3% of GDP in 2009-10 to register a small surplus in 2012-13 (Figure 2A). Net debt is projected to peak at 6.4% of GDP (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Notes: Fiscal balance and net debt are underlying cash balance and net financial liabilities in per cent of nominal GDP.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major fiscal consolidation measures

The Australian government's key consolidation objective has been to contain real spending growth, and as a result there has been little need for specific consolidation measures. On the revenue side, the government has raised taxes on tobacco and continues to implement its ambitious tax reform programme.

Table 1. **Major consolidation measures**

		Budgetary impact
Expenditures	No specific expenditure measures have been announced outside of the 2% cap in real spending growth	
Revenues		
Tobacco excises	Increased by 25% in April 2010	n.a.
Resource tax arrangements	Improved resource tax arrangements are expected to be applied to Australia's most highly profitable non-renewable resources from July 2012	n.a.
Tax reform agenda	The corporate tax rate will be cut to 29% from 2013-14, and to 28% from 2014-15. Over a 4-year period, a package of income tax rate cuts worth AUD 47 billion is also being implemented	n.a.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

To ensure the long-term sustainability of the pension system, the government announced pension reform measures in 2009, including increasing the retirement age from 65 to 67 by 2023.

4. Institutional reforms

In a move that would further strengthen the credibility of the fiscal framework, the Australian Opposition have tabled the “Parliamentary Budget Office Bill 2010” which would lead to the creation of an independent Parliamentary Budget Office.

Table 2. **The government’s fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Total deficit (-) / surplus (-)[1]	-4.3%	-3.0%	-0.8%	0.2%	0.2%
Total level of net debt		5.7%	6.4%	6.0%	5.7%

1. Fiscal balance is defined as the underlying cash balance.

Source: “OECD Fiscal Consolidation Survey 2010”.