



# Pre-election Economic and Fiscal Outlook 2022

A report by  
The Secretary to the Treasury  
and  
The Secretary of the Department of Finance

April 2022

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## Notes

- (a) The following definitions are used in the Pre-election Economic and Fiscal Outlook (PEFO):
- 'real' means adjusted for the effect of inflation
  - real growth in expenses and payments is calculated using the Consumer Price Index (CPI) as the deflator
  - the Budget year refers to 2022-23, while the forward years refer to 2023-24, 2024-25 and 2025-26
  - one billion is equal to one thousand million.
- (b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:
- estimates under \$100,000 are rounded to the nearest thousand
  - estimates \$100,000 and over are generally rounded to the nearest tenth of a million
  - estimates midway between rounding points are rounded up
  - the percentage changes in statistical tables are calculated using unrounded data.
- (c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.
- (d) The following notations are used:
- |         |   |
|---------|---|
| -       | nil   |
| na      | not applicable (unless otherwise specified) |
| \$m     | millions of dollars                         |
| \$b     | billions of dollars                         |
| nfp     | not for publication                         |
| (e)     | estimates (unless otherwise specified)      |
| (p)     | projections (unless otherwise specified)    |
| NEC/nec | not elsewhere classified                    |

- (e) The Australian Capital Territory and the Northern Territory are referred to as 'the territories'. References to the 'states' or 'each state' include the territories. The following abbreviations are used for the names of the states, where appropriate:

NSW	New South Wales
VIC	Victoria
QLD	Queensland
WA	Western Australia
SA	South Australia
TAS	Tasmania
ACT	Australian Capital Territory
NT	Northern Territory

- (f) In this paper the term 'Commonwealth' refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

The term 'Australian Government' is used when referring to the Government and the decisions and activities made by the Government on behalf of the Commonwealth of Australia.

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## Preface

The *Charter of Budget Honesty Act 1998* (the Charter) provides for the Secretary to the Treasury and the Secretary of the Department of Finance (the Secretaries) to release publicly a Pre-election Economic and Fiscal Outlook report (PEFO) within 10 days of the issue of the writs for a general election. Such writs were issued on 11 April 2022.

The purpose of the PEFO is to provide updated information on the economic and fiscal outlook. The information in the report takes into account, to the fullest extent possible, all Government decisions and all other circumstances that may have a material effect on the economic and fiscal outlook that were in existence before the issue of the writs for the election. The PEFO does not include the impact of election commitments that do not constitute decisions of Government and that are costed separately during the election campaign.

The Charter provides that, where there is information unchanged from that set out in full in an earlier budget report, the PEFO may summarise and state this information is unchanged.

Consistent with the requirements of the Charter, the PEFO includes:

- fiscal estimates and projections for the current financial year (2021-22) and the following 4 financial years (2022-23, 2023-24, 2024-25 and 2025-26)
- economic and other assumptions for the current financial year and the following 4 financial years used in preparing these updated fiscal estimates
- discussion of the sensitivity of updated fiscal estimates to changes in those economic and other assumptions
- debt aggregates and similar information presented in the debt statement
- an updated set of financial statements and summary of the external reporting standards used in the preparation of the PEFO (**Appendix A**)
- a list of policy decisions taken by the Government since the 2022-23 Budget and decisions that were taken but not announced at that time (**Appendix B**)
- an updated statement of the risks that may have a material effect on the fiscal outlook (**Appendix C**).

## Statement by the Treasurer and the Minister for Finance

Consistent with the *Charter of Budget Honesty Act 1998*, we declare that we have disclosed to the Secretary to the Treasury and the Secretary of the Department of Finance all details of any Government decision, or any other circumstance, that we know about:

- (i) that has, or could have, material fiscal or economic implications
- (ii) that neither of the responsible Secretaries could reasonably be expected to know about.



The Hon Josh Frydenberg MP  
Treasurer  
12 April 2022



Senator the Hon Simon Birmingham  
Minister for Finance  
12 April 2022

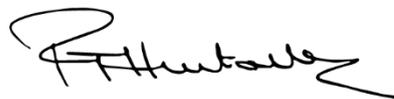
## Statement by the Secretary to the Treasury and the Secretary of the Department of Finance

Consistent with the *Charter of Budget Honesty Act 1998*, we declare that, to the fullest extent possible, the information in the Pre-election Economic and Fiscal Outlook 2022 for which we are responsible:

- (i) reflects the best professional judgment of the officers of the Treasury and the Department of Finance
- (ii) takes into account all economic and fiscal information available
- (iii) incorporates the fiscal implications of Government decisions and circumstances disclosed by the responsible Ministers.



Dr Steven Kennedy, PSM  
Secretary to the Treasury  
19 April 2022



Ms Rosemary Huxtable, PSM  
Secretary, Department of Finance  
19 April 2022



# Pre-election Economic and Fiscal Outlook

## Overview

Consistent with the Charter, the 2022 PEFO provides updated fiscal and economic estimates and projections, based on the best professional judgment of the Treasury and the Department of Finance, reflecting all known information at the time of the issue of the election writs.

The economic and fiscal outlook has not materially changed since the publication of the 2022-23 Budget on 29 March 2022. While there has been recent movement in some economic indicators, taking into account all available information, our judgment is that these have not materially altered the economic and fiscal outlook.

An underlying cash deficit of \$77.9 billion (3.4 per cent of GDP) is expected in 2022-23. The deficit is projected to narrow across the forward estimates, reaching 1.6 per cent of GDP by 2025-26. Gross debt is expected to peak at 44.9 per cent of GDP at 30 June 2025. Net debt is expected to stabilise at 33.1 per cent of GDP by the end of the forward estimates. Table 1 provides estimates of the major fiscal aggregates.

**Table 1: Budget aggregates**

	Actual	Estimates					Total(a)
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	
	\$b	\$b	\$b	\$b	\$b	\$b	\$b
<b>Underlying cash balance</b>	<b>-134.2</b>	<b>-79.8</b>	<b>-77.9</b>	<b>-56.5</b>	<b>-47.1</b>	<b>-42.9</b>	<b>-224.5</b>
Per cent of GDP	-6.5	-3.5	-3.4	-2.4	-1.9	-1.6	
<b>Gross debt(b)</b>	<b>817.0</b>	<b>906.0</b>	<b>977.0</b>	<b>1,056.0</b>	<b>1,117.0</b>	<b>1,169.0</b>	
Per cent of GDP	39.5	39.5	42.5	44.6	44.9	44.7	
<b>Net debt(c)</b>	<b>592.2</b>	<b>631.5</b>	<b>714.9</b>	<b>772.1</b>	<b>823.2</b>	<b>864.5</b>	
Per cent of GDP	28.6	27.6	31.1	32.6	33.1	33.1	

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.

(b) Gross debt measures the face value of Australian Government Securities (AGS) on issue.

(c) Net debt is the sum of interest bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

## Economic outlook

The outlook for the Australian economy remains strong, despite significant global headwinds, including rising global inflation and the conflict in Ukraine. The major economic parameters used in preparing the 2022 PEFO are unchanged from those presented at the 2022-23 Budget. Real GDP is forecast to grow by 4¼ per cent in 2021-22, reflecting strong momentum in the labour market and a rebound in private sector activity. Continued high labour force participation, low unemployment and strengthening wages growth is expected to see real GDP grow by 3½ per cent in 2022-23 and 2½ per cent in 2023-24.

Australia's economy has proved highly resilient throughout the pandemic. Output and employment are both back above pre-pandemic levels, with Australia avoiding the labour market scarring experienced in some other advanced economies. Recent indicators suggest that Omicron is having a relatively limited impact on economic activity. This reflects higher vaccination rates and continued adaptation to living with the virus. However, the potential emergence of new, more disruptive variants continues to pose a downside risk to domestic and global growth.

The direct impact of the Queensland and New South Wales floods on national economic activity is expected to occur in the March quarter, detracting around ½ of a percentage point from quarterly real GDP. Over the next few years, flood recovery and rebuilding activity will add to real GDP growth, although it may also add to existing cost pressures in the construction industry.

The global economic outlook remains highly uncertain, with Russia's invasion of Ukraine adding to global inflationary pressures, dampening investor and business confidence, and further disrupting supply chains. The invasion is expected to reduce global growth by ¾ of a percentage point in 2022 and increase global inflation by 1½ percentage points. Notwithstanding this, the global recovery is expected to continue as economies rebound and increasingly adapt to living with COVID-19. Global growth is expected to average 3¾ per cent in 2022 and 2023 and 3½ per cent in 2024, with Australia's major trading partners in the Asian region forecast to grow more quickly.

As an energy and food exporter with very limited direct trade exposure to Russia and Ukraine, Australia is relatively well positioned to weather the effects of Russia's invasion of Ukraine. The recent record prices for key export commodities will boost Australia's income and nominal GDP growth in the near term, although elevated global oil prices are flowing through to higher petrol and other consumer prices.

The outlook for domestic demand in Australia remains positive. Household consumption growth is expected to remain strong in 2022-23 and 2023-24, driven by rising employment and strengthening wage growth. A record pipeline of work in the residential construction sector is expected to support elevated dwelling investment. The

investment intentions of businesses also remain strong, supported by robust business balance sheets, temporary business tax incentives and strong economic momentum. While markets expect interest rates to normalise in coming years, materially higher household and business cash savings than at the start of the pandemic are expected to see domestic demand remain resilient.

Growth will be further supported in 2022-23 by companies rebuilding inventories that have been depleted through the pandemic as supply chain pressures ease. In contrast, net exports are expected to weigh on growth, particularly in 2022-23 as outbound tourism more than offsets inbound tourism and goods imports grow faster than exports.

There is significant momentum in the Australian labour market. In March 2022, the unemployment rate remained at 4.0 per cent, while the participation rate remained at a record high. The unemployment rate is expected to fall further to 3¾ per cent in the September quarter of 2022 and remain at that level until the end of 2024-25. The participation rate is also expected to remain at record high levels over the next few years.

Wage growth is expected to pick up steadily as the unemployment rate experiences a sustained period below the assumed non-accelerating inflation rate of unemployment (NAIRU) of 4¼ per cent. Wage growth, as measured by the Wage Price Index (WPI), is forecast to increase from 2¾ per cent through the year to the June quarter of 2022 to 3¾ per cent through the year to the June quarters of 2023 and 2024.

The broader National Accounts measure of average earnings (AENA) per hour, is expected to grow faster than the WPI over the forecast period. It is forecast to grow by 5 per cent through the year to the June quarter of 2022, 3½ per cent through the year to the June quarter of 2023, and 3¾ per cent through the year to the June quarter of 2024.

Global inflation picked up sharply in 2021 due to significant rises in energy prices, elevated goods demand, and strained supply chains. Inflation has also picked up in Australia, reaching 3.5 per cent through the year to the December quarter of 2021. The pick up in inflation has been stronger in other advanced economies, with inflation in the United States and the United Kingdom of 8.5 per cent and 7.0 per cent respectively through the year to March 2022. The Ukraine conflict will put further upwards pressure on global inflation in the near term.

Consumer prices in Australia are expected to grow by 4¼ per cent through the year to the June quarter of 2022, of which higher fuel costs from elevated global oil prices directly contribute around one percentage point. The fuel excise reduction is expected to reduce headline inflation by around ¼ of a percentage point in the June quarter of 2022. Beyond 2022, inflation is expected to moderate as supply chain pressures and new dwelling costs ease, the oil price is assumed to fall, and as policy rates normalise. However, the tight domestic labour market and strengthening of wages growth will see inflation remain at the upper end of the Reserve Bank's target band for some time, at

3 per cent through the year to June quarter of 2023 and 2¾ per cent through the year to the June quarters of 2024 and 2025.

Since the 2022-23 Budget, in Australian dollar terms average iron ore spot prices have been higher than assumed, but this is offset by lower average thermal coal and oil spot prices. Given short-term volatility and offsetting movements in individual commodity prices, these differences are judged not to give rise to a material change in nominal GDP. As such, the 2022 PEFO adopts the same commodity export price assumptions as Budget. It is assumed that elevated coal, iron ore and metals prices return to levels implied by long-run market fundamentals by the end of the September quarter of 2022. Analysis on the effect of commodity price movements on nominal GDP and revenue forecasts is discussed in *2022-23 Budget Statement 2: Economic Outlook* and *2022-23 Budget Statement 7: Forecasting Performance and Sensitivity Analysis*.

The recent strength in commodity export prices, partly due to the Russian invasion of Ukraine, will still see Australia's terms of trade reach a record high in 2021-22. This will support strong growth in nominal GDP of 10¾ per cent in 2021-22. Nominal GDP is expected to grow by ½ of a per cent in 2022-23 and by 3 per cent in 2023-24, reflecting the continued recovery in real GDP and growth in domestic prices. Overall, nominal GDP growth is subdued across these years due to a sharply falling terms of trade from the assumed unwinding of commodity prices from currently elevated levels.

There remain a number of key risks and uncertainties around the forecasts. These are in line with those presented in *2022-23 Budget Statement 2: Economic Outlook*.

On the health front, the pandemic will continue to pose a risk to the outlook for some time. The *2022-23 Budget Statement 2: Economic Outlook* identifies that real GDP growth would be ½ of a percentage point lower in 2022-23 if a more virulent or vaccine resistant variant of COVID-19 emerged. Conversely, a more benign health outlook than assumed in the forecasts would increase consumer confidence and spending, increasing real GDP growth by around ¾ of a percentage point in 2022-23.

An extended conflict between Russia and Ukraine could weigh more heavily on global energy supply and global demand, presenting a downside risk to the global and domestic outlook. Health developments in China also present a risk to global supply chains as China's aggressive suppression approach to managing the virus has the potential to lead to frequent lockdowns and disruptions to industrial production and normal consumption patterns. Case numbers from the current COVID-19 outbreak have strongly increased since the Budget, and new lockdowns have emerged in the key economic centre of Shanghai.

Rising inflationary pressure is expected to result in a tightening of monetary policy both domestically and globally. At the time of finalising the key assumptions for the 2022-23 Budget, financial markets were pricing in a domestic tightening cycle in

Australia from mid-2022 until 2024. Since then, the exchange rate has appreciated modestly and market expectations of the cash rate have risen. Other things being equal, an increase in the official cash rate that is faster and higher than previously assumed, would be expected to result in a reduction in economic activity and inflationary pressures relative to the Budget forecasts. However, taking into account all available information and the prevailing risks around the economic outlook, recent movement in these indicators is not judged to have materially altered the economic outlook.

Table 2 presents the major economic parameters used in preparing the 2022 PEFO. These are unchanged from those presented at the 2022-23 Budget.

**Table 2: Major economic parameters<sup>(a)</sup>**

	Outcome		Forecasts			
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Real GDP	1.5	4 1/4	3 1/2	2 1/2	2 1/2	2 1/2
Employment	6.5	2 3/4	1 1/2	1 1/2	1	1
Unemployment rate	5.1	4	3 3/4	3 3/4	3 3/4	4
Consumer price index	3.8	4 1/4	3	2 3/4	2 3/4	2 1/2
Wage price index	1.7	2 3/4	3 1/4	3 1/4	3 1/2	3 1/2
Nominal GDP	4.4	10 3/4	1/2	3	5 1/4	5

(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.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia and Treasury.

Detailed forecasts of the economy are prepared for the current financial year (2021-22), the Budget year (2022-23) and the subsequent financial year (2023-24). Beyond this period, a macroeconomic model of the Australian economy is used to determine the path the economy takes to converge back to its potential level of GDP.

Potential GDP is estimated based on an analysis of trends for population, productivity, and participation. As excess activity in the economy moderates and the output gap closes, real GDP is assumed to converge towards its potential level. The unemployment rate is assumed to converge towards the NAIRU assumption of 4¼ per cent, which generates the increase in the unemployment rate in the June quarter of 2026. Underlying labour productivity is assumed to converge over a 10-year period to the average growth rate in labour productivity over the 30 years to 2018-19 of 1.5 per cent per annum. Domestic prices are projected to return to the midpoint of the RBA's inflation target band by the June quarter of 2026.

## Fiscal outlook

The fiscal outlook has not materially changed since the publication of the 2022-23 Budget.

The underlying cash balance is expected to be a deficit of \$77.9 billion (3.4 per cent of GDP) in 2022-23.

Table 3 provides estimates of key fiscal aggregates.

**Table 3: Australian Government general government sector budget aggregates**

	Actual	Estimates					Total(a)
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	
	\$b	\$b	\$b	\$b	\$b	\$b	\$b
<b>Underlying cash balance</b>	<b>-134.2</b>	<b>-79.8</b>	<b>-77.9</b>	<b>-56.5</b>	<b>-47.1</b>	<b>-42.9</b>	<b>-224.5</b>
Per cent of GDP	-6.5	-3.5	-3.4	-2.4	-1.9	-1.6	
<b>Receipts</b>	<b>519.9</b>	<b>556.8</b>	<b>548.5</b>	<b>585.2</b>	<b>615.2</b>	<b>643.9</b>	<b>2,392.8</b>
Per cent of GDP	25.1	24.3	23.8	24.7	24.7	24.6	
<b>Tax receipts</b>	<b>473.9</b>	<b>512.5</b>	<b>508.4</b>	<b>541.7</b>	<b>566.6</b>	<b>598.2</b>	<b>2,214.9</b>
Per cent of GDP	22.9	22.4	22.1	22.9	22.8	22.9	
<b>Non-tax receipts</b>	<b>46.1</b>	<b>44.3</b>	<b>40.1</b>	<b>43.5</b>	<b>48.6</b>	<b>45.7</b>	<b>177.9</b>
Per cent of GDP	2.2	1.9	1.7	1.8	2.0	1.7	
<b>Payments(b)</b>	<b>654.1</b>	<b>636.6</b>	<b>626.5</b>	<b>641.7</b>	<b>662.3</b>	<b>686.8</b>	<b>2,617.3</b>
Per cent of GDP	31.6	27.8	27.2	27.1	26.6	26.3	
<b>Gross debt(c)</b>	<b>817.0</b>	<b>906.0</b>	<b>977.0</b>	<b>1,056.0</b>	<b>1,117.0</b>	<b>1,169.0</b>	
Per cent of GDP	39.5	39.5	42.5	44.6	44.9	44.7	
<b>Net debt(d)</b>	<b>592.2</b>	<b>631.5</b>	<b>714.9</b>	<b>772.1</b>	<b>823.2</b>	<b>864.5</b>	
Per cent of GDP	28.6	27.6	31.1	32.6	33.1	33.1	
<b>Net interest payments(e)</b>	<b>14.3</b>	<b>14.9</b>	<b>15.1</b>	<b>16.9</b>	<b>18.0</b>	<b>22.4</b>	<b>72.3</b>
Per cent of GDP	0.7	0.7	0.7	0.7	0.7	0.9	

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.

(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net cash flows from financing activities for leases.

(c) Gross debt measures the face value of Australian Government Securities (AGS) on issue.

(d) Net debt is the sum of interest bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

(e) Net interest payments are equal to the difference between interest payments and interest receipts. The increase in 2025-26 primarily reflects a Treasury Indexed Bond maturing in that year (details can be found in *2022-23 Budget Statement 6: Debt Statement*).

## Underlying cash balance estimates

Table 4 provides a reconciliation of the underlying cash balance estimates from the Budget to the PEFO.

**Table 4: Reconciliation of the general government sector underlying cash balance estimates**

	Estimates					Total(a)
	2021-22	2022-23	2023-24	2024-25	2025-26	
	\$m	\$m	\$m	\$m	\$m	\$m
<b>2022-23 Budget underlying cash balance</b>	<b>-79,821</b>	<b>-77,961</b>	<b>-56,532</b>	<b>-47,108</b>	<b>-43,068</b>	<b>-224,670</b>
Per cent of GDP	-3.5	-3.4	-2.4	-1.9	-1.6	
<b>Changes from 2022-23 Budget to 2022 PEFO</b>						
Effect of policy decisions(b)(c)						
<i>Receipts</i>	190	815	-120	-155	-155	385
<i>Payments</i>	166	1,358	-59	-88	-112	1,099
Total policy decisions impact on underlying cash balance	24	-543	-61	-67	-43	-714
Effect of parameter and other variations(c)						
<i>Receipts</i>	0	86	101	102	155	445
<i>Payments</i>	2	-481	32	20	-20	-449
Total parameter and other variations impact on underlying cash balance	-1	568	69	82	175	894
<b>2022 PEFO underlying cash balance</b>	<b>-79,799</b>	<b>-77,937</b>	<b>-56,525</b>	<b>-47,093</b>	<b>-42,936</b>	<b>-224,490</b>
Per cent of GDP	-3.5	-3.4	-2.4	-1.9	-1.6	

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.

(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

(c) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

Policy decisions taken since the Budget have had a negative underlying cash balance impact of \$542.7 million in 2022-23 and \$713.9 million over the 4 years to 2025-26.

This primarily reflects decisions to fund additional projects under the Infrastructure Investment Program and through Community Development Grants, and to extend the reporting period for the Royal Commission into Defence and Veteran Suicide for a further 12 months to 17 June 2024, as well as the finalisation of the Australia-India Economic Cooperation and Trade Agreement (AI ECTA).

The impact of these policy decisions has been partially offset by the reversal of a number of decisions previously taken but not yet announced (\$364.6 million over the 4 years to 2025-26) and the decision not to proceed with contingency measures to support the implementation of Workforce Australia, which are no longer required as the *Social*

*Security Legislation Amendment (Streamlined Participation Requirements and Other Measures) Bill 2022* received Royal Assent on 1 April 2022 (\$256.0 million over the 4 years to 2025-26).

In addition, in response to the floods in parts of New South Wales (NSW) and Queensland the Government has committed a further \$534.0 million in 2022-23. The costs of these flood-related measures will be met by drawing down the spending provision included in the Budget to provide for additional Commonwealth expenditure for the floods response in those states.

Details of all policy decisions taken since the Budget are provided at Appendix B.

Parameter and other variations since the Budget have had a positive underlying cash balance impact of \$893.7 million over the 4 years to 2025-26, largely reflecting the drawdown of the flood response spending provision included in the Budget (\$686.8 million over 2 years from 2021-22). The drawdown from the flood response provision includes funding of \$150.0 million in 2021-22 for the Australian Government Disaster Recovery Payments (AGDRP) and Disaster Recovery Allowance. The flood response provision is discussed in the *2022-23 Budget Statement 5: Expenses and Net Capital Investment*.

This also reflects the reversal of the customs duty provision in the Budget for AI ECTA, with a positive underlying cash balance impact of \$370.0 million over the 4 years to 2025-26.

In line with normal practice, the forward estimates in the PEFO do not incorporate ongoing funding for some items that are considered on a year by year or more frequent basis, including defence operations and costs for Pharmaceutical Benefits Scheme new listings.

Payments to partly reimburse states and territories for any future natural disasters under the Disaster Recovery Funding Arrangements (DRFA) are also not generally included in the forward estimates. The Budget included a spending provision of \$3.0 billion over the forward estimates to accommodate additional Commonwealth expenditure on the flood response in parts of NSW and Queensland. \$2.3 billion of this provision remains to contribute to the future costs stemming from these events (including for demand-driven payments under categories A and B of the DRFA and delayed claims on the AGDRP and Disaster Recovery Allowance). It is likely there will be additional costs from these or other disaster events that the Commonwealth will need to fund under the DRFA, the AGDRP and Disaster Recovery Allowance.

### **Contingency Reserve**

The Contingency Reserve estimates in the PEFO have been reduced since the Budget by \$339.4 million over the 4 years to 2025-26. Significant decreases since the Budget include:

- the partial drawdown of the Budget provision for the potential costs of the long-term response to the February-March 2022 floods in parts of NSW and Queensland
- the removal of decisions taken but not yet announced (DTBNYAs) from the Budget or prior rounds, which have now been reflected against entity estimates. These movements do not have any impact on the underlying cash balance as funding for DTBNYA items have already been reflected in the estimates in the previous budget rounds
- the reversal of DTBNYAs from the Budget or prior rounds, the value of which are included in Appendix B.

In the PEFO, the Contingency Reserve estimates reduce expenses by \$2.5 billion in 2022-23, \$6.2 billion in 2023-24, \$9.8 billion in 2024-25 and \$16.4 billion in 2025-26. The largest components of the Contingency Reserve are unchanged from the Budget and are as follows:

- an underspend provision in 2021-22 that reflects the tendency for budgeted expenses for some entities or functions not to be met
- the conservative bias allowance, which makes provision for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years (\$2.7 billion in 2023-24, \$5.6 billion in 2024-25 and \$11.6 billion in 2025-26)
- a provision to reflect the effects of economic parameter revisions received too late in the 2022-23 Budget process for inclusion in entity estimates
- a provision of \$148 million over 4 years from 2022-23 for the continuation of some expiring National Partnerships and possible by-election costs for the Australian Electoral Commission.

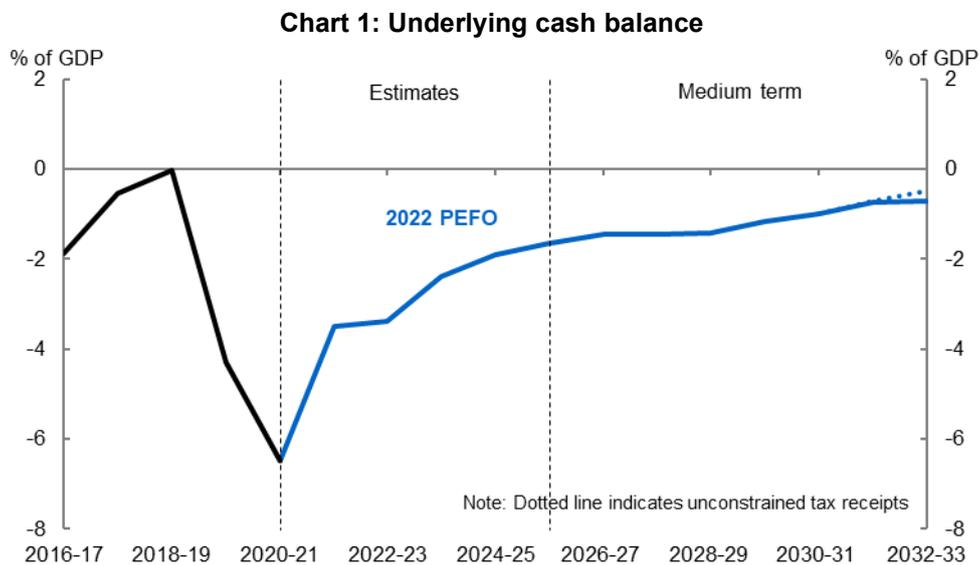
As noted in the Budget, the Contingency Reserve contains estimates or funding for measures which have been announced but cannot yet be included in entity estimates, usually due to some uncertainty as to their final cost and/or outcomes, or because they are subject to negotiations. These include:

- funding for the negotiation of a new National Skills Agreement with the states of around \$2.7 billion over the 4 years to 2025-26, which will remain in the Contingency Reserve as the agreement is subject to ongoing negotiations with the states
- funding for the Indigenous Recognition Referendum (\$160 million) and the establishment of a Commonwealth Integrity Commission (\$67 million over 4 years from 2022-23, this is an ongoing measure).

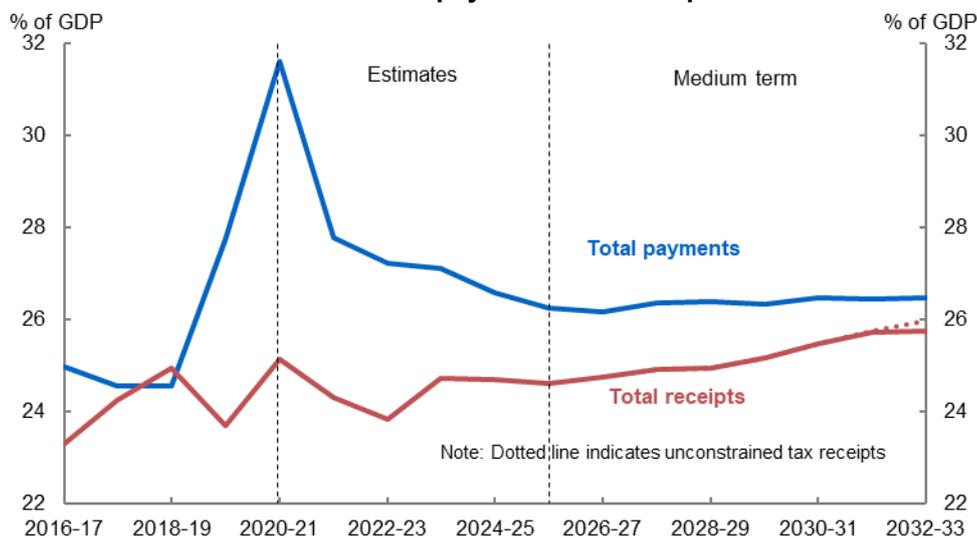
The Contingency Reserve also includes a number of items that cannot be disclosed for commercial-in-confidence or national security reasons. These include a provision for the replacement of the Australian Electoral Commission’s election and roll management systems as part of tranche 2 of their ICT modernisation program. The amount of this provision is not-for-publication due to commercial sensitivities, as the program is subject to future procurement activity.

**Medium-term fiscal outlook**

The underlying cash balance is projected to improve over the medium term to a deficit of 0.7 per cent of GDP in 2032-33 (Chart 1). Chart 2 shows total payments and total receipts projected to 2032-33.



Note: The PEFO projections have tax receipts reaching the 23.9 per cent tax-to-GDP cap in 2031-32. Underlying cash balance projections exclude net Future Fund earnings before 2020-21.  
 Source: Treasury.

**Chart 2: Total payments and receipts**

Note: Total receipts includes taxation and non-taxation receipts. The PEFO projections have tax receipts reaching the 23.9 per cent tax to GDP cap in 2031-32.

Source: Treasury.

Total receipts are expected to be 23.8 per cent of GDP in 2022-23 and are projected to reach 25.8 per cent of GDP in 2032-33. Total payments are expected to fall from 27.2 per cent of GDP in 2022-23 to be 26.3 per cent of GDP in 2025-26. Payments as a share of GDP are projected to remain largely stable across the medium term to be 26.5 per cent of GDP in 2032-33.

The structural budget balance has undergone a deterioration since the onset of the pandemic. This reflects the increased spending that the Government has undertaken in areas such as the National Disability Insurance Scheme and aged care. An increase in interest payments also contributes to the higher payments profile over the medium term, reflecting the increased levels of debt accumulated as a result of the pandemic. More details can be found in *2022-23 Budget Statement 3: Fiscal Strategy and Outlook*.

Treasury's medium-term fiscal projections outline the broad trajectory of the fiscal position under current policy settings. They use the Budget's forward estimates as a base. Therefore, they are subject to risks and uncertainties similar to those affecting the forward estimates. However, the longer timeframes across the medium term mean these risks and uncertainties can be amplified.

## Balance sheet aggregates

Estimates of gross debt, net debt, net financial worth, net worth and net interest payments have not changed materially since the Budget, as reported in *2022-23 Budget Statement 3: Fiscal Strategy and Outlook*. A breakdown of Australian Government Securities on issue was reported in *2022-23 Budget Statement 6: Debt Statement*.

Government borrowing rates, proxied by the 10-year yield, increased between MYEFO and the 2022-23 Budget, and have increased further over the past few weeks, reflecting domestic and global factors, particularly higher US bond rates. Should this increase be sustained, interest payments on Australian Government Securities as a share of GDP would be around 0.1 percentage points higher in 2025-26 than estimated at Budget. Gross debt as a share of GDP at 30 June 2026 would be 0.5 percentage points higher.

In the context of the inherent risks around the outlook and all available information, the increase in yields is judged not to have materially altered the fiscal outlook.

*2022-23 Budget Statement 7: Forecasting Performance and Sensitivity Analysis* presents analysis about the impact that higher and lower yield assumptions have on the underlying cash balance and gross debt estimates and projections.

Table 5 provides a summary of the Australian Government general government sector balance sheet aggregates.

**Table 5: Australian Government general government sector balance sheet aggregates**

	Actual	Estimates				
	2020-21 \$b	2021-22 \$b	2022-23 \$b	2023-24 \$b	2024-25 \$b	2025-26 \$b
<b>Financial assets</b>	<b>547.0</b>	<b>566.0</b>	<b>575.5</b>	<b>610.3</b>	<b>636.2</b>	<b>659.8</b>
Per cent of GDP	26.5	24.7	25.0	25.8	25.5	25.2
<b>Non-financial assets</b>	<b>180.7</b>	<b>191.6</b>	<b>201.8</b>	<b>211.5</b>	<b>220.2</b>	<b>227.5</b>
Per cent of GDP	8.7	8.4	8.8	8.9	8.8	8.7
<b>Total assets</b>	<b>727.7</b>	<b>757.6</b>	<b>777.3</b>	<b>821.8</b>	<b>856.3</b>	<b>887.3</b>
Per cent of GDP	35.2	33.1	33.8	34.7	34.4	33.9
<b>Total liabilities</b>	<b>1,453.0</b>	<b>1,352.9</b>	<b>1,434.8</b>	<b>1,528.3</b>	<b>1,604.2</b>	<b>1,666.2</b>
Per cent of GDP	70.3	59.1	62.4	64.6	64.4	63.7
<b>Net worth</b>	<b>-725.2</b>	<b>-595.3</b>	<b>-657.5</b>	<b>-706.5</b>	<b>-747.9</b>	<b>-778.9</b>
Per cent of GDP	-35.1	-26.0	-28.6	-29.8	-30.0	-29.8
<b>Net financial worth(a)</b>	<b>-905.9</b>	<b>-786.8</b>	<b>-859.3</b>	<b>-918.0</b>	<b>-968.0</b>	<b>-1,006.4</b>
Per cent of GDP	-43.8	-34.3	-37.4	-38.8	-38.9	-38.5
<b>Gross debt(b)</b>	<b>817.0</b>	<b>906.0</b>	<b>977.0</b>	<b>1,056.0</b>	<b>1,117.0</b>	<b>1,169.0</b>
Per cent of GDP	39.5	39.5	42.5	44.6	44.9	44.7
<b>Net debt(c)</b>	<b>592.2</b>	<b>631.5</b>	<b>714.9</b>	<b>772.1</b>	<b>823.2</b>	<b>864.5</b>
Per cent of GDP	28.6	27.6	31.1	32.6	33.1	33.1
<b>Total interest payments</b>	<b>17.1</b>	<b>17.5</b>	<b>17.9</b>	<b>20.3</b>	<b>21.6</b>	<b>26.3</b>
Per cent of GDP	0.8	0.8	0.8	0.9	0.9	1.0
<b>Net interest payments(d)</b>	<b>14.3</b>	<b>14.9</b>	<b>15.1</b>	<b>16.9</b>	<b>18.0</b>	<b>22.4</b>
Per cent of GDP	0.7	0.7	0.7	0.7	0.7	0.9

(a) Net financial worth equals total financial assets minus total liabilities.

(b) Gross debt measures the face value of Australian Government Securities (AGS) on issue.

(c) Net debt is the sum of interest bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

(d) Net interest payments are equal to the difference between interest payments and interest receipts. The increase in 2025-26 primarily reflects a Treasury Indexed Bond maturing in that year (details can be found in *2022-23 Budget Statement 6: Debt Statement*).

## Appendix A: Financial Statements

The financial statements consist of an operating statement, including other economic flows, a balance sheet, and a cash flow statement for the Australian Government general government sector (GGS).

The *Charter of Budget Honesty Act 1998* (the Charter) requires that the PEFO be based on external reporting standards and that departures from applicable external reporting standards be identified.

The external standards used for reporting purposes are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015* (cat. no. 5514.0), which is based on the International Monetary Fund (IMF) accrual GFS framework
- the Australian Accounting Standards (AAS), issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards as adopted in Australia for use by the not-for-profit sector and specific standards such as AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

The financial statements have been prepared on the same basis as the budget papers. The statements reflect the Government's policy that the ABS GFS remains the basis of budget accounting policy, except where AAS is applied because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

Fiscal reporting focuses on the GGS. The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS, all material transactions and balances between entities within the GGS have been eliminated.

The Government's key fiscal aggregates are based on the ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including the net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates, the Uniform Presentation Framework requires disclosure of net debt, net financial worth and net financial liabilities.

## Departures from external reporting standards

The Charter requires that departures from applicable external reporting standards be identified. The major differences between AAS and the ABS GFS treatments of transactions are outlined in the below table.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements. Only one measure of each aggregate has been included on the face statements to avoid confusion.

Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, 2015 (cat. no. 5514.0).

**Major differences between AAS and ABS GFS**

<b>Issue</b>	<b>AAS treatment</b>	<b>ABS GFS treatment</b>	<b>Treatment adopted</b>
Circulating coins – seigniorage	The profit between the cost and sale of circulating coins (seigniorage) is treated as revenue.	Circulating coins is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Valuation of loans	Changes in the valuation of loans are treated as a revenue or an expense.  In some circumstances recognition as a revenue or an expense is delayed until the loan ends or is transferred.	Changes in the valuation of loans (excluding mutually agreed write-downs) are treated as an 'other economic flow'.	ABS GFS
Timing recognition of Boosting Cash Flow for Employers	Expense recognition based on underlying economic activity that gives rise to the Cash Flow Boost payment.	Recognised when the businesses receive payments after submitting their activity statements and having met all requirements.	AAS
Leases	AASB 16 introduced a single lease accounting framework for lessees, which replaced the distinction between operating and finance leases. Right of use assets and lease liabilities are recognised on the balance sheets for leases that were previously accounted for as operating expense.	The distinction between operating leases and finance leases is continued for lessees.	AAS
Concessional loans	Concessional elements are treated as an expense on initial recognition and unwound over the loan term.	Concessional elements are treated as an 'other economic flow'.	AAS
Investment in other public sector entities	Valued at fair value in the balance sheet as long as it can be reliably measured, otherwise net assets is permissible.	Unlisted entities valued based on their net assets in the balance sheet.	AAS
Provision for restoration, decommissioning and make-good	Capitalised when the asset is acquired.	Capitalised when make-good activity takes place.	AAS
Renewable Energy Certificates (RECs)	The issuance and registration of RECs is considered to be an administrative function and does not result in the recognition of assets or liabilities and, consequently, no revenue or expenses are recognised.	The issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.	AAS

**Major differences between AAS and ABS GFS (continued)**

<b>Issue</b>	<b>AAS treatment</b>	<b>ABS GFS treatment</b>	<b>Treatment adopted</b>
Dividends paid by public corporations	Treated as an equity distribution. Equity distributions are treated as a distribution of profits, as opposed to an expense.	Dividends are treated as an expense.	ABS GFS
Dividends paid by the Reserve Bank of Australia	Dividends are recognised in the year profit was earned.	Dividends are recognised when the Treasurer makes a determination.	AAS
National Disability Insurance Scheme (NDIS) revenue	Funding contributions by the state and territory governments to NDIS are treated as sales of goods and services revenue.  In-kind disability services provided by the state and territory governments are treated as other revenue.	Funding contributions by the state and territory governments to NDIS are treated as grants revenue.  In-kind disability services provided by the state and territory governments are treated as sales of goods and services revenue.	AAS
<b>Classification differences</b>			
Prepayments	Treated as a non-financial asset.	Treated as a financial asset.	ABS GFS
Spectrum sales	Recognise non-financial asset sale for fiscal balance when licences take effect, which may be after the auction of licences, as this is regarded as the point at which control is transferred. Recognise cash at the time of receipt.	Recognise non-financial asset sale for fiscal balance at time of auction as this is regarded as the point at which control is transferred. Recognise cash at the time of receipt.	AAS

**Table A1: Australian Government general government sector operating statement**

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>Revenue</b>					
Taxation revenue(a)	525,395	520,984	554,444	579,304	612,134
Sales of goods and services	17,628	18,326	19,518	20,398	20,943
Interest income	3,916	3,751	4,294	4,576	4,697
Dividend and distribution income(b)	6,219	5,292	5,681	6,057	6,428
Other(a)	13,449	13,495	11,704	11,352	11,031
<b>Total revenue</b>	<b>566,607</b>	<b>561,848</b>	<b>595,641</b>	<b>621,687</b>	<b>655,232</b>
<b>Expenses</b>					
Gross operating expenses					
Wages and salaries(c)	23,567	23,373	23,179	23,727	24,028
Superannuation	12,285	7,064	7,177	7,415	7,632
Depreciation and amortisation	11,745	12,462	13,304	14,035	14,817
Supply of goods and services	167,662	174,053	173,579	180,138	188,583
Other operating expenses(c)	8,168	9,277	8,260	8,442	8,557
<i>Total gross operating expenses</i>	<i>223,427</i>	<i>226,229</i>	<i>225,498</i>	<i>233,756</i>	<i>243,617</i>
Superannuation interest expense	8,976	12,453	12,758	13,053	13,716
Interest expenses	20,639	21,481	22,567	24,666	25,944
Current transfers					
Current grants	188,944	185,737	190,903	196,632	199,688
Subsidy expenses	18,017	15,890	16,069	16,680	17,204
Personal benefits	156,498	141,916	149,752	157,270	169,583
<i>Total current transfers</i>	<i>363,459</i>	<i>343,543</i>	<i>356,724</i>	<i>370,582</i>	<i>386,474</i>
Capital transfers					
Mutually agreed write-downs	2,768	2,915	3,130	3,319	3,459
Other capital grants	20,745	22,457	23,118	19,930	13,500
<i>Total capital transfers</i>	<i>23,513</i>	<i>25,372</i>	<i>26,248</i>	<i>23,249</i>	<i>16,958</i>
<b>Total expenses</b>	<b>640,014</b>	<b>629,078</b>	<b>643,795</b>	<b>665,306</b>	<b>686,710</b>
<b>Net operating balance</b>	<b>-73,407</b>	<b>-67,230</b>	<b>-48,154</b>	<b>-43,619</b>	<b>-31,477</b>
<b>Other economic flows –</b>					
<b>included in operating result</b>					
Net write-downs of assets	-7,051	-7,491	-7,705	-8,039	-8,356
Assets recognised for the first time	242	251	261	271	282
Actuarial revaluations	-15	83	59	37	27
Net foreign exchange gains	-602	-55	-124	-108	-166
Net swap interest received	-427	0	0	0	0
Market valuation of debt	48,066	-3,364	-3,285	-2,533	-2,496
Other gains/(losses)	5,751	9,340	10,111	10,652	11,278
<b>Total other economic flows –</b>					
<b>included in operating result</b>	<b>45,964</b>	<b>-1,235</b>	<b>-684</b>	<b>281</b>	<b>568</b>
<b>Operating result(d)</b>	<b>-27,443</b>	<b>-68,465</b>	<b>-48,838</b>	<b>-43,338</b>	<b>-30,909</b>

**Table A1: Australian Government general government sector operating statement (continued)**

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>Non-owner movements in equity</b>					
Revaluation of equity investments	-8,494	6,348	0	0	0
Actuarial revaluations	-880	-190	-195	-198	-210
Other economic revaluations	1,061	60	51	2,157	41
<b>Total other economic flows – included in equity</b>	<b>-8,312</b>	<b>6,218</b>	<b>-144</b>	<b>1,959</b>	<b>-169</b>
<b>Comprehensive result –</b>					
<b>Total change in net worth</b>	<b>-35,756</b>	<b>-62,247</b>	<b>-48,981</b>	<b>-41,379</b>	<b>-31,078</b>
<b>Net operating balance</b>	<b>-73,407</b>	<b>-67,230</b>	<b>-48,154</b>	<b>-43,619</b>	<b>-31,477</b>
<b>Net acquisition of non-financial assets</b>					
Purchases of non-financial assets	23,025	22,853	23,139	22,766	22,213
less Sales of non-financial assets	1,149	119	80	2,215	139
less Depreciation	11,745	12,462	13,304	14,035	14,817
plus Change in inventories	988	1,064	827	928	916
plus Other movements in non-financial assets	-27	-6	0	0	0
<b>Total net acquisition of non-financial assets</b>	<b>11,092</b>	<b>11,330</b>	<b>10,581</b>	<b>7,443</b>	<b>8,172</b>
<b>Fiscal balance</b>					
<b>(Net lending/borrowing)(e)</b>	<b>-84,499</b>	<b>-78,560</b>	<b>-58,735</b>	<b>-51,062</b>	<b>-39,649</b>

(a) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation revenue to taxation revenue to reflect the change in the nature of this revenue. This results in an increase in taxation revenue and a decrease in other revenue.

(b) 'Dividend income' has been renamed 'dividend and distribution income' to more accurately reflect the transactions included in this item.

(c) Consistent with the ABS GFS classification, other employee related expenses are classified separately from wages and salaries under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.

(d) Operating result under AAS.

(e) The term fiscal balance is not used by the ABS.

**Table A2: Australian Government general government sector balance sheet**

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>Assets</b>					
Financial assets					
Cash and deposits	62,228	36,108	49,329	50,657	51,455
Advances paid	81,915	86,550	83,582	86,997	89,438
Investments, loans and placements	203,633	216,979	232,197	239,804	247,579
Other receivables	65,948	69,848	74,451	78,637	83,708
Equity investments					
Investments in other public sector entities	56,373	69,644	74,165	78,473	81,022
Equity accounted investments	4,034	4,109	4,146	4,142	4,096
Investments – shares	91,886	92,275	92,438	97,450	102,527
<i>Total financial assets</i>	<i>566,015</i>	<i>575,512</i>	<i>610,308</i>	<i>636,160</i>	<i>659,826</i>
Non-financial assets					
Land	12,327	12,680	12,684	12,698	12,603
Buildings	45,800	47,863	49,429	50,495	51,093
Plant, equipment and infrastructure	99,155	105,313	112,723	119,852	126,295
Inventories	11,196	11,877	12,292	12,791	13,260
Intangibles	10,706	11,639	11,929	11,930	11,839
Investment properties	214	216	216	216	216
Biological assets	21	21	21	21	21
Heritage and cultural assets	11,873	11,880	11,887	11,877	11,864
Assets held for sale	286	279	279	279	279
Other non-financial assets	13	7	7	7	7
<i>Total non-financial assets</i>	<i>191,590</i>	<i>201,776</i>	<i>211,466</i>	<i>220,167</i>	<i>227,477</i>
<b>Total assets</b>	<b>757,605</b>	<b>777,288</b>	<b>821,773</b>	<b>856,327</b>	<b>887,303</b>
<b>Liabilities</b>					
Interest bearing liabilities					
Deposits held	598	598	598	598	598
Government securities	929,091	1,004,288	1,087,754	1,152,547	1,206,526
Loans	29,640	29,583	29,403	29,151	28,837
Lease liabilities	19,901	20,068	19,421	18,370	16,962
<i>Total interest bearing liabilities</i>	<i>979,230</i>	<i>1,054,537</i>	<i>1,137,176</i>	<i>1,200,665</i>	<i>1,252,923</i>

**Table A2: Australian Government general government sector balance sheet (continued)**

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
Provisions and payables					
Superannuation liability	251,251	257,862	264,321	276,144	284,152
Other employee liabilities	38,518	39,209	40,164	41,125	41,768
Suppliers payables	12,113	12,936	13,357	13,662	13,872
Personal benefits payables	2,950	2,984	3,804	3,872	3,960
Subsidies payables	985	991	1,000	1,012	1,037
Grants payables	3,648	3,509	3,152	3,799	3,376
Other payables	2,629	2,652	4,742	2,663	2,678
Provisions	61,540	60,114	60,545	61,250	62,481
<i>Total provisions and payables</i>	<i>373,635</i>	<i>380,257</i>	<i>391,085</i>	<i>403,527</i>	<i>413,324</i>
<b>Total liabilities</b>	<b>1,352,864</b>	<b>1,434,794</b>	<b>1,528,261</b>	<b>1,604,193</b>	<b>1,666,247</b>
<b>Net worth(a)</b>	<b>-595,259</b>	<b>-657,506</b>	<b>-706,487</b>	<b>-747,866</b>	<b>-778,944</b>
<i>Net financial worth(b)</i>	<i>-786,849</i>	<i>-859,282</i>	<i>-917,953</i>	<i>-968,032</i>	<i>-1,006,421</i>
<i>Net financial liabilities(c)</i>	<i>843,221</i>	<i>928,926</i>	<i>992,118</i>	<i>1,046,506</i>	<i>1,087,443</i>
<i>Net debt(d)</i>	<i>631,455</i>	<i>714,900</i>	<i>772,068</i>	<i>823,208</i>	<i>864,451</i>

(a) Net worth equals total assets minus total liabilities.

(b) Net financial worth equals total financial assets minus total liabilities.

(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.

(d) Net debt is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

**Table A3: Australian Government general government sector cash flow statement<sup>(a)</sup>**

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>Cash receipts from operating activities</b>					
Taxes received(b)	512,495	508,425	541,737	566,570	598,183
Receipts from sales of goods and services	17,626	18,346	19,520	20,413	20,943
Interest receipts	2,557	2,820	3,393	3,670	3,980
Dividends, distributions and income tax equivalents(c)	9,142	5,284	5,672	6,048	6,418
Other receipts(b)(d)	14,509	13,411	12,564	18,228	14,104
<b>Total operating receipts</b>	<b>556,329</b>	<b>548,285</b>	<b>582,885</b>	<b>614,929</b>	<b>643,628</b>
<b>Cash payments for operating activities</b>					
Payments to employees(d)(e)	-37,207	-37,133	-37,526	-38,803	-40,199
Payments for goods and services	-164,512	-173,073	-173,207	-180,349	-188,945
Grants and subsidies paid	-230,044	-226,346	-230,210	-232,246	-229,812
Interest paid	-17,457	-17,894	-20,288	-21,631	-26,344
Personal benefit payments	-157,280	-142,255	-149,594	-157,900	-170,197
Other payments(e)	-7,496	-8,556	-7,297	-7,489	-7,608
<b>Total operating payments</b>	<b>-613,996</b>	<b>-605,257</b>	<b>-618,122</b>	<b>-638,419</b>	<b>-663,105</b>
<b>Net cash flows from operating activities</b>	<b>-57,667</b>	<b>-56,972</b>	<b>-35,237</b>	<b>-23,489</b>	<b>-19,477</b>
<b>Cash flows from investments in non-financial assets</b>					
Sales of non-financial assets	487	248	2,304	255	272
Purchases of non-financial assets	-20,159	-18,770	-21,117	-21,371	-21,252
<b>Net cash flows from investments in non-financial assets</b>	<b>-19,672</b>	<b>-18,522</b>	<b>-18,813</b>	<b>-21,117</b>	<b>-20,980</b>
<b>Net cash flows from investments in financial assets for policy purposes</b>	<b>-5,949</b>	<b>-12,857</b>	<b>-3,873</b>	<b>-10,130</b>	<b>-6,818</b>
<b>Net cash flows from investments in financial assets for liquidity purposes</b>	<b>-3,200</b>	<b>-4,754</b>	<b>-5,097</b>	<b>-1,592</b>	<b>-1,962</b>
<b>Cash receipts from financing activities</b>					
Borrowing	262,545	612,724	714,048	756,275	759,709
Other financing	72	13	21	16	12
<b>Total cash receipts from financing activities</b>	<b>262,617</b>	<b>612,737</b>	<b>714,069</b>	<b>756,291</b>	<b>759,720</b>
<b>Cash payments for financing activities</b>					
Borrowing	-168,956	-538,436	-632,479	-692,682	-703,492
Other financing	-7,356	-7,315	-5,348	-5,952	-6,193
<b>Total cash payments for financing activities</b>	<b>-176,312</b>	<b>-545,751</b>	<b>-637,827</b>	<b>-698,634</b>	<b>-709,685</b>
<b>Net cash flows from financing activities</b>	<b>86,305</b>	<b>66,986</b>	<b>76,243</b>	<b>57,657</b>	<b>50,035</b>
<b>Net increase/(decrease) in cash held</b>	<b>-184</b>	<b>-26,120</b>	<b>13,222</b>	<b>1,328</b>	<b>798</b>

**Table A3: Australian Government general government sector cash flow statement (continued)<sup>(a)</sup>**

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>GFS cash surplus(+)/deficit(-)(f)</b>	<b>-77,339</b>	<b>-75,494</b>	<b>-54,050</b>	<b>-44,606</b>	<b>-40,457</b>
<i>plus</i> Net cash flows from financing activities for leases(g)	-2,460	-2,443	-2,474	-2,487	-2,479
<b>Equals underlying cash balance(h)</b>	<b>-79,799</b>	<b>-77,937</b>	<b>-56,525</b>	<b>-47,093</b>	<b>-42,936</b>
<i>plus</i> Net cash flows from investments in financial assets for policy purposes	-5,949	-12,857	-3,873	-10,130	-6,818
<b>Equals headline cash balance</b>	<b>-85,748</b>	<b>-90,794</b>	<b>-60,398</b>	<b>-57,224</b>	<b>-49,754</b>

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.

(b) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipt to taxation receipt to reflect the change in the nature of this receipt. This results in an increase in taxes received and a decrease in other receipts.

(c) 'Dividends and income tax equivalents' has been renamed to 'dividends, distributions and income tax equivalents' to more accurately reflect the types of receipts included in this item.

(d) As result of a voluntary accounting policy change, the pass-through of defined benefit member superannuation receipts and payments are reported on a gross basis in the cash flow statement. This was previously reported on a net basis.

(e) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.

(f) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.

(g) Principal payments on lease liabilities, which are financing cash payments, are deducted in the calculation of the underlying cash balance to maintain consistency of measure following the implementation of AASB 16.

(h) The term underlying cash balance is not used by the ABS.

## Appendix B: Policy decisions since the 2022-23 Budget

**Table B1: Receipt measures since the 2022-23 Budget<sup>(a)</sup>**

	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>HEALTH</b>					
<i>Department of Health</i>					
COVID-19 Response Package – treatments(b)	175.0	875.0	-	-	-
<b>Portfolio total</b>	<b>175.0</b>	<b>875.0</b>	-	-	-
<b>HOME AFFAIRS</b>					
<i>Department of Home Affairs</i>					
Australia-India Economic Cooperation and Trade Agreement(b)(d)	-	-45.0	-95.0	-95.0	-100.0
Responding to the Invasion of Ukraine – punitive tariffs on Russia and Belarus(e)	-	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-45.0</b>	<b>-95.0</b>	<b>-95.0</b>	<b>-100.0</b>
<b>TREASURY</b>					
<i>Australian Taxation Office</i>					
Australia-India Economic Cooperation and Trade Agreement(b)(d)	-	..	-25.0	-60.0	-55.0
Superannuation – protecting veterans' interests – further amendments(f)	15.0	-15.0	-	-	-
<b>Portfolio total</b>	<b>15.0</b>	<b>-15.0</b>	<b>-25.0</b>	<b>-60.0</b>	<b>-55.0</b>
<b>Total impact of receipt measures(c)</b>	<b>190.0</b>	<b>815.0</b>	<b>-120.0</b>	<b>-155.0</b>	<b>-155.0</b>

\* The nature of the measure is such that a reliable estimate cannot be provided.

.. Not zero, but rounded to zero.

- Nil.

(a) A minus sign before an estimate indicates a reduction in receipts, no sign before an estimate indicates a gain in receipts.

(b) These measures can also be found in the payment measures summary table.

(c) Measures may not add due to rounding.

(d) Further information can be found in the joint media release of 2 April 2022 issued by the Prime Minister and the Minister for Trade, Tourism and Investment; and in the Australia-India ECTA official text as published on the Department of Foreign Affairs and Trade website.

(e) The receipts impact for this measure (which was not zero, but rounded to zero) was included as a 'decision taken but not yet announced' in the 2022-23 Budget. Further information can be found in the joint media release of 31 March 2022 issued by the Prime Minister; the Minister for Foreign Affairs, Minister for Women; and the Minister for Trade, Tourism and Investment.

(f) Further to the 2021-22 MYEFO measure "Superannuation – protecting veterans' interests", this measure makes changes to the Government's policy approach to ensure that no veteran faces adverse tax outcomes and that veterans retain any preferable non-tax outcomes as a result of the Full Federal Court decision in "Commissioner of Taxation v Douglas".

**Table B2: Payment measures since the 2022-23 Budget<sup>(a)</sup>**

	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>AGRICULTURE, WATER AND THE ENVIRONMENT</b>					
<i>Department of Agriculture, Water and the Environment</i>					
Accelerate Adoption of Wood Processing Innovation(g)	-	-	-	-	-
<b>Portfolio total</b>	-	-	-	-	-
<b>ATTORNEY-GENERAL'S</b>					
<i>Attorney-General's Department</i>					
Royal Commission into Defence and Veteran Suicide – extension(h)	-	-	49.3	-	-
<b>Portfolio total</b>	-	-	<b>49.3</b>	-	-
<b>CROSS PORTFOLIO</b>					
<i>Various Agencies</i>					
Reversal of measures reported as a 'decision taken but not yet announced' in prior rounds	1.9	-50.6	-97.0	-106.8	-110.2
<b>Portfolio total</b>	<b>1.9</b>	<b>-50.6</b>	<b>-97.0</b>	<b>-106.8</b>	<b>-110.2</b>
<b>DEFENCE</b>					
<i>Department of Defence</i>					
Assistance to Ukraine – additional(i)	-	-	-	-	-
Cape Class patrol boats – acquisition(j)	-	-	-	-	-
Defence Force Retirement and Death Pensions(k)	-	-	-	-	-
<b>Portfolio total</b>	-	-	-	-	-

**Table B2: Payment measures since the 2022-23 Budget<sup>(a)</sup> (continued)**

	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>EDUCATION, SKILLS AND EMPLOYMENT</b>					
<i>Department of Education, Skills and Employment</i>					
Virtual Production Pilot Program(l)	-	-	-	-	-
Workforce Australia – reversal of contingency measures(m)	-8.9	-140.8	-26.0	-16.9	-9.9
<b>Portfolio total</b>	<b>-8.9</b>	<b>-140.8</b>	<b>-26.0</b>	<b>-16.9</b>	<b>-9.9</b>
<b>FINANCE</b>					
<i>Department of Finance</i>					
Marinus Link(s)	-	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FOREIGN AFFAIRS AND TRADE</b>					
<i>Department of Foreign Affairs and Trade</i>					
Australia-India Economic Cooperation and Trade Agreement(b)	-	-	-	-	-
Facilitated Commercial Flights Program – extension(n)	-	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>HEALTH</b>					
<i>Australian Sports Commission</i>					
Australian Institute of Sport (AIS) Arena – upgrades(o)	-	8.7	0.9	0.9	0.9
<i>Department of Health</i>					
Centre for National Resilience – continuation(aa)	-	-	-	-	-
COVID-19 Response Package – treatments(b)(p)	168.6	841.9	-	-	-
National Centre of Excellence in Intellectual Disability Health(q)	-	-	-	-	-
Pharmaceutical Benefits Scheme – new and amended listings(r)	0.7	4.3	4.7	5.3	5.9
<b>Portfolio total</b>	<b>169.3</b>	<b>854.9</b>	<b>5.6</b>	<b>6.2</b>	<b>6.8</b>
<b>HOME AFFAIRS</b>					
<i>Department of Home Affairs</i>					
Australia-India Economic Cooperation and Trade Agreement(b)	-	4.6	0.9	0.4	0.4
<b>Portfolio total</b>	<b>-</b>	<b>4.6</b>	<b>0.9</b>	<b>0.4</b>	<b>0.4</b>
<b>INDUSTRY, SCIENCE, ENERGY AND RESOURCES</b>					
<i>Department of Industry, Science, Energy and Resources</i>					
Marinus Link(s)	-	-	-	-	-
Tarraleah Hydro Power Plant(t)	-	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Table B2: Payment measures since the 2022-23 Budget<sup>(a)</sup> (continued)**

	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>INFRASTRUCTURE, TRANSPORT, REGIONAL DEVELOPMENT AND COMMUNICATIONS</b>					
<i>Department of Infrastructure, Transport, Regional Development and Communications</i>					
Community Development Grants – additional projects(u)	-	116.6	-	-	-
Infrastructure Investment Program – additional projects(v)	-	-	-	-	-
National Water Grid Fund – project funding(w)	-	-	-	-	-
Road Safety Programs – additional funding(x)	-	5.0	9.5	11.5	-
<b>Portfolio total</b>	<b>-</b>	<b>121.6</b>	<b>9.5</b>	<b>11.5</b>	<b>-</b>
<b>PRIME MINISTER AND CABINET</b>					
<i>National Recovery and Resilience Agency</i>					
Disaster Recovery Funding Arrangement – 2021 Tasmanian storms(y)	-	-	-	-	-
Flood Package – additional support(z)	-	-	-	-	-
<b>Portfolio total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>SOCIAL SERVICES</b>					
<i>Department of Social Services</i>					
Workforce Australia – reversal of contingency measures(m)	-6.9	-40.6	-18.5	-	-
<i>Services Australia</i>					
COVID-19 Response Package – treatments(b)(p)	..	-	-	-	-
DVA – Additional resources for claims processing(cc)	-	-	-	-	-
Pharmaceutical Benefits Scheme – new and amended listings(r)	-	-	-	-	-
Workforce Australia – reversal of contingency measures(m)	1.8	-2.9	-0.1	-0.1	-0.1
<b>Portfolio total</b>	<b>-5.1</b>	<b>-43.5</b>	<b>-18.6</b>	<b>-0.1</b>	<b>-0.1</b>
<b>TREASURY</b>					
<i>Australian Taxation Office</i>					
Australia-India Economic Cooperation and Trade Agreement(b)	-	-	0.1	0.2	0.2
<i>Department of the Treasury</i>					
Australia-India Economic Cooperation and Trade Agreement(b)	-	-	..	..	..
Centre for National Resilience – continuation(aa)	-	-	-	-	-
Disaster Recovery Funding Arrangement – 2021 Tasmanian storms(y)	-	0.2	-	-	-
Flood Package – additional support(z)	2.8	534.0	-	-	-

**Table B2: Payment measures since the 2022-23 Budget<sup>(a)</sup> (continued)**

	2021-22	2022-23	2023-24	2024-25	2025-26
	\$m	\$m	\$m	\$m	\$m
<b>TREASURY (continued)</b>					
Home Guarantee Scheme – increase to price caps(bb)	-	-	-	0.1	0.6
Infrastructure Investment Program – additional projects(v)	-	21.2	17.5	17.5	-
Marinus Link(s)	-	-	-	-	-
National Water Grid Fund – project funding(w)	-	23.0	-	-	-
Tarraleah Hydro Power Plant(t)	-	-	-	-	-
<b>Portfolio total</b>	<b>2.8</b>	<b>578.3</b>	<b>17.6</b>	<b>17.8</b>	<b>0.8</b>
<b>VETERANS' AFFAIRS</b>					
<i>Department of Veterans' Affairs</i>					
COVID-19 Response Package – treatments(b)(p)	6.3	33.1	-	-	-
DVA – additional resources for claims processing(cc)	-	-	-	-	-
Pharmaceutical Benefits Scheme – new and amended listings(r)	-	-	-	-	-
<b>Portfolio total</b>	<b>6.3</b>	<b>33.1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impact of payment measures(c)</b>	<b>166.5</b>	<b>1,357.7</b>	<b>-58.7</b>	<b>-88.0</b>	<b>-112.1</b>

\* The nature of the measure is such that a reliable estimate cannot be provided.

.. Not zero, but rounded to zero.

- Nil.

(a) A minus sign before an estimate indicates a reduction in payments, no sign before an estimate indicates increased payments.

(b) These measures can also be found in the receipt measures summary table.

(c) Measures may not add due to rounding.

(g) This measure commits funding of \$112.9 million over 6 years from 2021-22. This measure was included as a 'decision taken but not yet announced' in the 2021-22 MYEFO.

(h) This measure commits funding of \$49.3 million for one year in 2023-24 for the operations of the Royal Commission, which has been extended to 17 June 2024.

(i) This measure commits funding of \$100.5 million in 2021-22 for additional military assistance to Ukraine, including defensive equipment, rations, medical supplies, Bushmaster Protected Mobility Vehicles and anti-armour weapons and ammunition, to be met from within the existing resources of the Department of Defence.

(j) This measure commits funding of \$124.4 million over 3 years from 2021-22. The cost of this measure will be met from within the existing resources of the Department of Defence. This measure was included as a 'decision taken but not yet announced' in the 2022-23 Budget.

(k) This measure commits funding to provide one-off payments to recipients of Defence Force Retirement and Death Benefits pensions who have been over-paid as a result of the incorrect application of indexation to their pensions. The cost of this measure will be met from within the existing resources of the Department of Defence.

(l) This measure commits funding of \$5.0 million in 2021-22 to the Victorian College of the Arts to develop a virtual production pilot program. The cost of this measure will be met from within the existing resources of the Department of Education, Skills and Employment.

(m) This measure will provide savings of \$269.9 million over 5 years from 2021-22 and \$10.0 million ongoing from 2026-27 by not proceeding with contingency measures to support the implementation of Workforce Australia, which are no longer required as the *Social Security Legislation Amendment (Streamlines Participation Requirements and Other Measures) Bill 2022* received Royal Assent on 1 April 2022.

(n) This measure extends the Facilitated Commercial Flights Program and the Hardship Program for 3 months to 30 June 2022. The cost of this measure will be met from within existing program funding.

(o) This measure commits funding of \$11.4 million over 4 years from 2022-23 to undertake remediation work.

(p) This measure changes the number of COVID-19 treatment courses the Government will purchase under existing advance purchase agreements that were funded in the 2022-23 Budget. These changes offset

the cost of listing one of the treatments on the Pharmaceutical Benefits Scheme (PBS) and provide additional funding of around \$550.0 million in the program estimates for purchasing future COVID-19 treatments. As the Commonwealth will purchase the treatments and is the responsible party for PBS listing purposes for the period 1 May 2022 to 30 June 2023, this measure also has a positive impact on receipts of \$1.1 billion.

- (q) This measure commits additional funding of \$8.0 million for 2 years from 2022-23 to be met from within the existing resources of the Department of Health.
- (r) This measure commits funding of \$69.5 million over 5 years from 2021-22 and \$21.3 million per year ongoing. Partial costs will be met from the efficiencies created from the 2021-22 MYEFO measure *Improving Access to Medicines – new strategic agreements with Medicines Australia and the Generic and Biosimilar Medicines Association*. The revenue from rebates negotiated as part of purchase agreements is included in the estimates but not in the measure to protect commercial sensitivities.
- (s) This measure commits funding of \$88.1 million over 4 years from 2021-22. This measure was included as a 'decision taken but not yet announced' in the 2021-22 MYEFO and the 2022-23 Budget. Funding is provided to the Treasury as payments to states and territories.
- (t) This measure commits funding of \$65.0 million over 4 years from 2021-22. Funding for this measure was included as a 'decision taken but not yet announced' in the 2021-22 MYEFO. Funding is provided to the Treasury as payments to states and territories.
- (u) This measure commits funding of \$116.6 million in 2022-23 for additional projects, including \$15.0 million for Frankston Basketball Stadium redevelopment, \$15.0 million for Macedon Ranges Sports Precinct Stage 2 redevelopment, \$6.1 million for Pioneer River (Fursden Creek) Levee, \$5.0 million for Boronia Hawks Football Netball Club new pavilion, \$5.0 million for Neerim South Aged Care Facility upgrades, \$5.0 million for Scheyville Veterans Wellbeing Centre upgrades, \$4.5 million for Sebastapol Community Facilities upgrades, \$4.2 million for Giant Steps facility upgrades (additional funding), \$4.0 million for Mount Waverley Reserve redevelopment, \$4.0 million for Wynnum Wolves Carmichael Park upgrades, \$3.6 million for Kensington Gardens Clubrooms, \$3.6 million for Lakes Entrance Krauatunglung Walk, \$3.5 million for Moreton Bay Central Sports Complex upgrades, \$3.0 million for Marino Community Hall upgrades and \$3.0 million for Max McMahon Oval upgrades.
- (v) This measure commits funding of \$56.2 million over 3 years from 2022-23, including \$21.2 million in 2022-23 for 6 priority road projects in Queensland (\$11.1 million for the Burke Development Road Project, \$7.9 million for the Gregory Downs to Camooweal Road Project, \$1.2 million for the Granada Road Seal Extension Project, \$0.5 million for the Kerb and Channel to Town Streets Project, \$0.4 million for the Coalbrook Road Culverts Project, and \$0.1 million for the Adavale Black Road Project), and \$35.0 million over 2 years from 2023-24 for the Nicholson Road-Garden Street Grade Separation Project in Western Australia. Funding is provided to the Treasury as payments to states and territories.
- (w) This measure commits funding of \$23.0 million in 2022-23 to the National Water Grid Fund for the Nyngan to Cobar Pipeline – Stage 1 Pump Station Replacement Project in New South Wales. Funding is provided to the Treasury as payments to states and territories.
- (x) This measure commits funding of \$26.0 million over 3 years from 2022-23 for Driver Reviver Site Upgrades and grants to support projects across Australia that aim to reduce road trauma, to support road safety research and the development of new road safety technologies.
- (y) The Government is providing disaster support for the recovery of communities impacted by the Tasmanian storms and floods in October to December 2021.
- (z) This measure commits funding of \$550.3 million over 2 years from 2021-22 for additional support for the recovery from the February-March 2022 floods in parts of New South Wales and Queensland. \$13.5 million in funding for this measure was included as a 'decision taken but not yet announced' in the 2022-23 Budget. Funding is provided to the Treasury as payments to states and territories.
- (aa) This measure commits funding for one year from 2022-23 to negotiate maintenance costs for the Centre for National Resilience at Howard Springs to be met from within the resources of the existing Bilateral Agreement with the Northern Territory. Funding is provided to the Treasury as payments to states and territories.
- (bb) This measure commits funding of \$0.7 million over 2 years from 2024-25 to increase the underlying property price caps for the Home Guarantee Scheme including First Home Guarantee, Family Home Guarantee and Regional Home Guarantee with effect from 1 July 2022.
- (cc) This measure commits additional funding of \$73.3 million over 4 years. This measure was included in the contingency reserve in the 2022-23 Budget.

# Appendix C: Statement of Risks

## Overview

Full details and explanations of fiscal risks, contingent liabilities and assets, and Government loans are provided in the *2022-23 Budget Statement 8: Statement of Risks*. That Statement includes all risks that meet a materiality threshold – a possible impact on the forward estimates greater than \$20 million in any one year, or \$50 million over the forward estimates period.

Consistent with the Charter, the 2022 PEFO updates (where necessary) only those fiscal risks, contingent liabilities and assets, and Government loans that have arisen or materially changed since the 2022-23 Budget, and other risks that may have an effect on the fiscal outlook.

There is one specific fiscal risk, one significant but remote contingency, and three contingent liabilities that have been updated following the 2022-23 Budget. The updated risk items are included in the relevant section below. All other risk and loan items included in the *2022-23 Budget Statement 8: Statement of Risks* still accurately reflect the risk to the fiscal outlook.

## Fiscal risks

Fiscal risks comprise general developments or specific events that may affect the fiscal outlook. Some developments or events raise the possibility of a fiscal impact. In other cases, the likelihood of a fiscal impact may be reasonably certain, but will not be included in the forward estimates because the timing or magnitude is not known.

The receipt and payment estimates and projections published in the 2022 PEFO are based on a range of economic and other parameters, consistent with the 2022-23 Budget. If the economic outlook were to differ significantly from that presented in the PEFO, the receipt and payment estimates and projections would also change.

The economic and fiscal estimates and projections are based on the best professional judgment of the Treasury and the Department of Finance, reflecting all known information at the time of the issue of the election writs. To the extent that unanticipated changes in economic conditions occur, their impact will flow through to government payment and receipt forecasts.

Payment outcomes can also differ from forecasts for a number of reasons.

Demand-driven programs, such as payments to individuals for social welfare, form a large proportion of government expenditure. Forecasts of payments associated with demand-driven government programs, such as payments related to Child Care

programs, health spending through Medicare and the Pharmaceutical Benefits Scheme, or the National Disability Insurance Scheme, vary depending on the number of expected participants or beneficiaries, the nature and extent of their participation and underlying cost drivers. The costs relating to the provision of humanitarian support programs are demand driven (for a capped number of migrants). The cumulative impact of events such as the war in Ukraine and the humanitarian situation in Afghanistan, as well as the easing of restrictions in response to the COVID-19 pandemic, may result in a different pattern of demand across the forward estimates to that previously forecast.

Forecasts of payments for a number of other government programs also depend on forecasts of economic conditions. For example, lower than forecast unemployment levels would mean that expenditure for related social services payments, including allowances, would be lower.

There are also fiscal risks stemming from Government responses to Royal Commissions. For instance, the Royal Commission into Defence and Veteran Suicide, and the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability may result in the Government providing additional funding to address resulting recommendations. There are also some recommendations of existing Royal Commission reports such as the Royal Commission into Aged Care Quality and Safety which the Government has committed to addressing, but for which responses are not yet fully developed, and which may result in additional expenditure.

One fiscal risk in the Foreign Affairs and Trade portfolio has been updated since the 2022-23 Budget:

#### **Fiscal Risk – Export Finance Australia – National Interest Account (NIA)**

There are four financing facilities under the NIA and, since the 2022-23 Budget, there has been changes to one of the financing facilities as detailed below.

The Critical Minerals Facility (the Facility) was established on 28 September 2021 to provide finance to critical minerals projects in Australia where private sector finance is unavailable or insufficient. The Facility has a maximum aggregate exposure of \$2.0 billion. On 2 February 2022, the Australian Government announced two loans under the Facility with a total maximum value of approximately \$239 million. In the 2022-23 Budget measure *Critical Minerals Facility – projects*, the Government announced that it was in negotiations for an additional loan. On 4 April 2022, the Government announced this additional loan of \$1.25 billion to Iluka Resources to support the establishment of Australia's first integrated rare earths refinery in Western Australia. The financial implications for these loans are not for publication and the fiscal impacts of the loan to Iluka is not reflected in the budget estimates to protect commercial sensitivities. These impacts will be reflected in future economic updates. As at 11 April 2022, no funds have been drawn down from the Facility.

### **Unlegislated measures**

In line with normal practice and, as was the case at the 2022-23 Budget, the forward estimates in the PEFO reflect the impact of all policy decisions, including those that remain unlegislated. The estimated net impact of all unlegislated policy decisions over the four years to 2025-26, announced prior to the PEFO and after taking account of parameter changes since the original announcement, is a negative \$54.3 billion in underlying cash terms. This comprises:

- policy decisions made prior to the 2022-23 Budget that require legislation to be implemented, which have a net negative impact on the underlying cash balance of around \$19.7 billion over the four years to 2025-26
- new policy decisions announced in the 2022-23 Budget that require legislation to be implemented, which have a net negative impact on the underlying cash balance of around \$34.6 billion over the four years to 2025-26. This includes policy decisions with an estimated net negative impact of \$19.0 billion that require annual appropriation bills but do not require any other enabling legislation to be implemented.

Consistent with normal practice, the estimates in the PEFO assume that unlegislated policy decisions will be legislated and take effect from the next possible commencement date. Where legislation is not passed by the scheduled commencement date, is passed with amendments to the original decision, or is rejected, there is a risk of a variation to the fiscal position outlined in the PEFO.

There are a number of tax measures included in the 2022-23 Budget that take effect on or before 1 July 2022. Many of these measures can be legislated at a later time within 2022-23 without materially affecting the estimates.

### **Contingent liabilities and assets**

There are a range of factors that may influence the actual budget outcome in future years, including matters that are not included in the fiscal forecasts because of uncertainty about their timing, magnitude or likelihood, and the realisation of contingent liabilities or assets.

As outlined in the 2022-23 Budget, a large number of the contingent liabilities reflect indemnities, including those relating to the Department of Defence, the Future Fund Management Agency and Future Fund Board of Guardians, and the Reserve Bank of Australia.

The fiscal position is also subject to a number of guarantees issued by the Australian Government, such as those relating to guarantee schemes for the banking and financial sector, payments by the Export Finance and Insurance Corporation and the

superannuation liabilities of the Commonwealth Bank prior to its sale to the private sector.

Other significant contingent liabilities relate to uncalled capital subscriptions and credit facilities to international financial institutions, and legal cases concerning the Australian Government.

There have been four material updates to contingent liabilities and assets following the 2022-23 Budget – one update to a Contingent Liability in the Health portfolio, one update to a Contingent Liability in the Industry, Science, Energy and Resources portfolio, one update to a significant but remote contingency in the Infrastructure, Transport, Regional Development and Communications portfolio and one update to a Contingent Liability in the Prime Minister and Cabinet portfolio:

#### **Contingent liability – unquantifiable – Major Sporting Events**

The Australian Government provided a commitment to support the hosting of the Commonwealth Games 2026 in Victoria, including the provision of government services, should Commonwealth Games Australia and the Victorian Government's bid be successful. On 12 April 2022, Victoria was selected to host the Commonwealth Games 2026, with regional hubs and athletes' villages to be established in Geelong, Bendigo, Ballarat and Gippsland. The detail and cost of any Australian Government support is yet to be determined.

#### **Contingent liability – quantifiable – Underwriting of Transmission Projects**

The Australian Government is working with the New South Wales (NSW) and Victorian Governments to provide early works underwriting support to the HumeLink and the Victoria to NSW Interconnector West (VNI West) projects.

The Australian Government and NSW Government have committed to underwrite early works for HumeLink (up to a total of \$65.7 million).

The Australian Government is underwriting TransGrid to deliver early works for VNI West in New South Wales (with a preferred route known as KerangLink). The potential costs payable by the Australian Government for VNI West will be capped at \$75.8 million.

The Australian Government will provide up to \$181.5 million in underwriting support under an agreement secured with the NSW transmission provider TransGrid to enable transmission lines being built from south of Coleambally to Wagga Wagga as part of Project EnergyConnect, to be constructed at a larger capacity, which would reduce the future construction cost of the VNI West project.

Conditions for the underwritings to be called upon are likely to relate to the projects not achieving regulatory and approval requirements, but are also dependent on the final underwriting arrangements negotiated.

**Significant but remote contingency – WSA Co Limited – Sydney Metro-Western Sydney Airport Indemnity**

The Australian Government has provided an indemnity to cover liabilities that may be incurred by WSA Co Limited related to the integration of the Sydney Metro-Western Sydney Airport project (delivered by the New South Wales Government) with the Western Sydney International (Nancy-Bird Walton) Airport, to the extent such liabilities are established in the Airport-Rail Integration Deed.

**Contingent liability – unquantifiable – Disaster Recovery**

The Australian Government provides funding to states and territories (states) through the jointly funded Commonwealth-State Disaster Recovery Funding Arrangements (DRFA) to assist with natural disaster relief and recovery costs. States may claim DRFA funding if a natural disaster occurs and states' relief and recovery expenditure for that event meets the thresholds set out in the arrangements.

Since the 2022-23 Budget, the Australian Government has agreed to support the NSW Government Regional Roads and Transport Recovery Package, to be funded under Category B or D of DRFA, where applicable. At this stage, the package is unquantifiable, with costs and timing of the Australian Government's contribution dependent upon an assessment of the flood impacted roads infrastructure being undertaken. The Australian Government is also contributing funding under a NSW Government Community Infrastructure Recovery Package for the repair or replacement of community owned assets under DRFA, where applicable, with the costs yet to be quantified.

There are no other changes to the Disaster Recovery risks as reported in the 2022-23 Budget.

**Government loans**

Consistent with the 2022-23 Budget, the Budget estimates include a number of loans, which all contain some element of credit risk that they will not be repaid in full, although in most cases this risk is small. There have been no material updates to Government loans as disclosed in 2022-23 Budget Statement 8. In relation to the NBN Co Loan, the NBN repaid a further \$1.0 billion on 14 April 2022.