

Australian Federal Budget Back to black in 2020/21



A new focus on good & bad debt

SAbn	2016/17 Latest	2017/18 Budget	2018/19 Budget	2019/20 Budget	2020/21 Budget
Underlying balance	-37.6	-29.4	-21.4	-2.5	7.4
% GDP	-2.1	-1.6	-1.1	-0.1	0.4

Key economic forecasts for 2017/18

Economic Growth

2.75%

Consumer Price Index

2.0%

Unemployment Rate

5.75%

Major policy initiatives:

Winners



Transport infrastructure

\$A70bn to Western Sydney Airport, Melbourne to Brisbane Inland Rail, Snowy Hydro generation expansion



Health

\$A1bn to unfreeze Medicare rebates for doctors and medical procedures



Housing

First home buyer pre tax savings account; incentives for downsizers; affordable housing



Company tax rate

Aim for 25% from 30% over next 10 years



Pensioners

One off payment to help with electricity price rises



Schools

\$A18.6bn in school funding under needs-based model



Small Businesses

\$A20k small business instant asset write-off extended for another year

Losers



Banks

Levy of 0.06% on liabilities on banks with liabilities greater than \$A100bn – big 4 and Macquarie worth \$A6bn



Medicare Levy

Increase by 0.5% to 2.5% from 1 July 2019



Universities and University students

Efficiency dividend, higher fees and earlier payback



Foreign Aid

Foreign aid increases will be frozen for two years from 2018, saving \$A303m



Foreign workers & those who employ them

New visa and levy

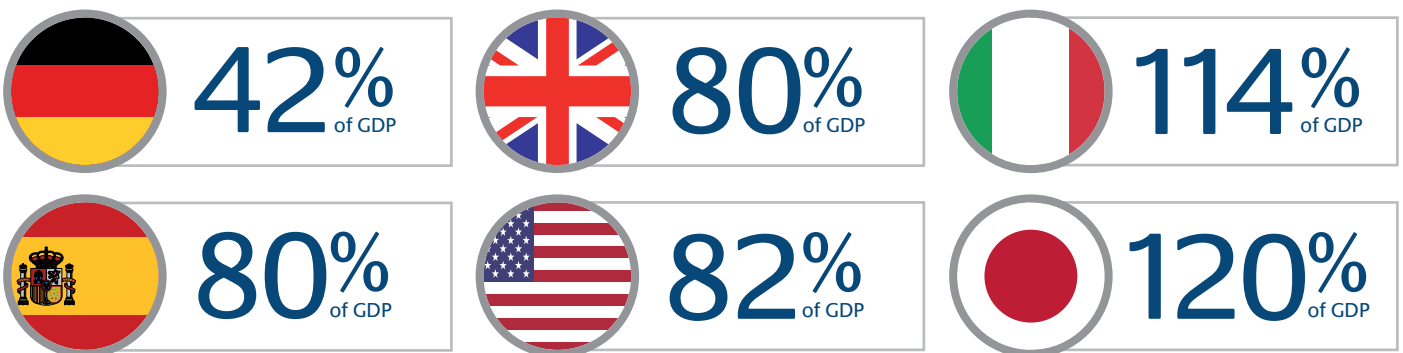
The debt picture – Will the AAA remain?

Australia is 1 out of 10 countries AAA rated by all three major agencies

Total net debt



Compared to other advanced economies



Market Implications:

Official Cash Rate

on hold until late 2018 at

1.5% subject to inflation, housing and employment

- Little change to monetary policy from the Budget
- The Reserve Bank remains focused on low and stable inflation, labour market softness and the housing market

Bond Market

yields little changed around

2.7%

Commonwealth Government Securities to increase from 540bn in 2017/18 to

725bn in 2027/28

- The AAA rating is key, which has been on negative outlook with the S&P since July 2016
- Little downside expected to bond yields if Australia loses AAA
- Trend dependent on US and inflation outlook

Equity Market

Corporate tax rate for companies with turnover under \$A50m to

25% by 2026/27

While overall valuation concerns remain, some areas are set to benefit.

- Infrastructure investment may support markets by lifting economic growth
- Infrastructure and housing policies will support building materials, transport, developers and contractors
- Lifting the freeze on Medicare rebates may support health care companies

Australian Dollar

steady around

\$US0.74

- Minimal impact, dependent on credit rating outcome
- Infrastructure spending is a positive long-term
- AUD outlook dependent on President Trump's fiscal stimulus with tax reform further delayed. Combined with Australia's better external position, AUD/USD level could persist into end 2017

Source: Commonwealth Budget 2017/18, CFSGAM.

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