Address to the Australian Business Economists, The Westin, Sydney

Check against delivery

Thanks very much — it’s good to be here.

There is now a little less than two weeks until the Budget.

Twelve months ago, we announced a budget that was unapologetic in its commitment to drive jobs and growth with a plan to provide fertile ground for businesses to invest and expand.

This is because we know that this is the way to increase what Australians can earn every week, how many hours they can get, how secure their job is or where their next job will come from.

When the economy grows; when businesses grow, Australians are the ones who benefit through more and better paid jobs.

You can’t get a job in a business that is closed and you can’t get a pay rise in a business that is not growing.

What better cause for Governments to get behind than helping hard working Australians earn more.
But there are no quick fixes. It takes a disciplined commitment to consistently remove the barriers and back in small, medium and large businesses to drive the investment that underpins growth to produce more and better paying jobs for hard working Australians.

This is the plan we have been implementing in the last 12 months. It will remain our focus in the forthcoming Budget.

Today, I want to first reflect briefly on what we have been able to achieve in implementing our national economic plan for jobs and growth since last year's Budget.

I then want to spend some time on the economic context for the Budget.

**Achievements**

**Budget repair**

Since last year's Budget, we have successfully implemented and legislated more than $25 billion in budget repair measures. That's around two thirds of what was outstanding at the last Budget.

That has exceeded most commentators expectations and was all delivered after last year's election. It demonstrated the Turnbull Government’s ability to persevere with fiscal discipline as part of our national economic plan and pass necessary and worthwhile changes, no matter how challenging the parliamentary environment may appear.

Two basic principles underpin our commitment to budget repair. First of all, you don't spend money you don't have. Second, by achieving savings you can reduce the deficit and make the investments needed to deliver and build upon the services that Australians rely on.

Our commitment to budget repair, for example, enabled us to responsibly fund our Jobs for Families package delivering more affordable, flexible and accessible child care for Australian families.

**Tax cuts**
We have also delivered every tax cut promised for this term of government — all inside the first year.

We provided hard-working Australians in the middle tax bracket with some welcome relief so that when they earn more, they won’t be taxed more.

We also passed legislation through the Senate that delivered tax cuts for around 3.2 million small and medium Australian businesses, employing over 6.5 million workers - more than half of Australia’s workforce.

These tax cuts back in small and medium sized businesses and help them to invest more, employ extra staff and pay higher wages — putting more money in the pockets of hard-working Australians.

Unlike our political opponents we understand the merits of having an internationally competitive corporate tax rate. And we are not alone.

2017 data analysed by the UK based Oxford Centre for Business Taxation found Australia’s corporate tax competitiveness on headline and effective tax rates was ranked sixth worst out of 33 OECD countries studied and seventh worst on effective marginal tax rates.

The Trump Administration has now outlined their corporate tax plan to bring their headline rate down to 15 per cent, but they are not the only ones. The UK is already at 19 per cent and is heading for 17 per cent, Singapore is already at 17 per cent.

Rates are also lower across most of Europe and French Presidential Candidate Emmanuel Macron has announced he intends to extend the planned French tax cut, which reduces the corporate tax rate to 28 per cent, to 25 per cent if he is elected.

More favourable tax rates in the US, UK, Europe and Asia puts further pressure on our ability to attract investment and for our businesses to remain competitive.

Failure to maintain our tax competitiveness will cost jobs and see investment go offshore.
While there are those who believe Australia cannot afford to make our business taxes competitive, the obvious point is how can we viably afford not to?

That’s why we worked so hard to get this first stage passed.

That’s why we believe the full enterprise plan should be implemented.

And that is why we will re-introduce the remaining elements of our Enterprise Tax Plan to the Parliament when we return for the Budget.

**Multinational tax**

At the same time, we're making sure multinationals pay the right amount of tax in Australia.

This is, after all, the tax on profits earned in Australia, from Australian consumers, which ultimately funds infrastructure and essential government services.

On this front, Australia now has some of the toughest laws in the world to combat multinational tax avoidance and a special, dedicated taskforce within the Australian Taxation Office (ATO) is reaping results.

The ATO recently confirmed it has raised $2.9 billion in tax liabilities against a group of just seven multinational companies. And expect to raise additional tax liabilities of more than $4 billion in total this year from large public groups and multinationals. And just last week the ATO had a major win over Chevron, who were seeking to reduce their tax with egregious internal transfer pricing arrangements.

This shows that the Turnbull Government is getting both the policy and implementation right on multinational tax avoidance.

We have put the tougher measures in place, which Bill Shorten and Labor opposed, and we are following through with tougher compliance, which Labor failed to do in Government.

I want to commend the ATO on this significant result and, in particular, Commissioner Chris Jordan. He has shown strong
leadership in working with the Government to implement our strong multinational tax avoidance laws.

Given Chris Jordan’s success I am pleased to announce today that the Government has successfully extended Mr Jordan’s contract and term through to 2024. I also announce the promotion and appointment of Mr Ramez Catf as second Commissioner.

As the Cronulla Sharks number one ticket holder I know how important it is to keep a winning team together. Chris Jordan has been an important part of our winning combination on multinational tax avoidance and I’m pleased he’s re-signed for many more seasons to come.

Other Budget actions
We have also taken action to deliver some of the largest reforms to our superannuation system for a generation, to ensure that superannuation tax concessions are fairer, more affordable and more sustainable for Australians into the future.

We have also passed laws to support and facilitate crowd sourced equity funding, which will create new financing opportunities for small businesses.

And we have banned excess credit card surcharging, ensuring Australians aren’t ripped off when they buy flights, take a cab or go to the footy.

Our national economic plan has already delivered:

- record investment in infrastructure;
- setting up our defence industry supply chain for decades to come;
- ensuring Australia is making the most of new industries focussed on innovation and science;
- enhancing our ambitious trade agenda with trade agreements that promote the world-beating products and services that Australians create;
- necessary reforms to get the building and construction sector under control;
- delivering on affordable child care for hard-working
Australian families; and
• providing guaranteed funding for schools and hospitals.

Economic outlook

As you can see, we’ve been busy.

But where does that leave us going forward, and what is the economic context for this year’s Budget?

There is a greater sense of optimism for the global economic outlook than we have seen in some time. We have also seen global trade volumes pick up in recent months after a period of prolonged weakness, with world merchandise trade picking up in recent months after two years of weakness.

In the United States, consumption and housing investment should continue to support growth, and the US unemployment rate has fallen back to near pre-GFC lows. There have been marked increases in consumer sentiment in recent months, along with encouraging signs in measures of business sentiment, while the US Administration have a range of policy proposals that could provide further support to short-term growth.

Economic sentiment appears to have strengthened in the euro area, which grew at 1.8 per cent through the year to December, while unemployment has been declining from a high level. Both the euro area and the UK economies have to date been resilient post-Brexit, although the economic effects can only be judged with a longer timeframe.

Closer to home, the Chinese economy has continued its positive momentum from 2016 into the start of 2017, with March quarter national accounts showing growth of 6.9 per cent through the year, the highest since September 2015.

The outlook for Japanese short-term growth has improved, with the IMF upgrading their GDP forecasts by around ½ percentage point, and India remains among the fastest growing major economies in the world. ASEAN economies also appear positive, with strong growth recorded in Indonesia, the Philippines and Vietnam.
And while we are buoyed by any improvement in the global economy, we acknowledge that downside risks and other challenges remain.

This is the message that I and my G20 colleagues received in Germany last month at the meeting of Finance Ministers and Central Bank Governors and has been reinforced in Washington in the past week.

Last week’s IMF World Economic Outlook for the first time in two years included an upgrade in its global growth forecasts. They see “improving world growth in the years ahead”.

In fact, IMF forecasts placed Australia ahead of the major advanced economies for growth. But those are the IMF’s forecasts.

Our budget forecasts will be revealed on May 9. They will remain conservative and credible, as they were in our mid-year update, which was key in retaining the confidence of financial markets and ratings agencies.

Our message in adopting this approach is straightforward. We are realistic about the challenges that we face, both fiscal and economic, and we have a plan to meet them.

So what are our strengths and challenges?

Australia’s economy continues to perform comparatively well.

Our transition away from the investment phase of the mining boom towards broader based drivers of economic growth is well-advanced. Indeed, the Reserve Bank Governor Philip Lowe has noted that “We are already around 90 per cent of the way through” the decline in mining investment.

Our most recent quarterly accounts saw real GDP grow by 1.1 per cent in the December 2016 quarter to be 2.4 per cent higher through the year. This is faster than any of the G7 economies and above the OECD average.

The rebound in activity in December was broad-based, with household consumption making the largest contribution to
growth and solid contributions also coming from public investment, business investment, exports and dwelling investment.

Yesterday’s consumer price inflation release showed that year-ended headline inflation in the March quarter returned to within the RBA’s 2-3 per cent target band for the first time since September 2014.

Things are beginning to look up, and we can be more confident that there are better days ahead.

Growth in the Australian economy is expected to strengthen in the coming years as the detraction from mining investment eases and as growth in household consumption and non-mining business investment improves.

And, we’re well-placed to benefit from an improving outlook for global growth as countries in the Asian region continue to grow and the US picks up momentum.

I’ll have more to say on all this – including updated economic growth forecasts – when I release the Budget.

**Risks and challenges**

I want to stress though that while the overall picture may be improving, that does not mean that the benefits of those improvements are being felt by all, particularly in regional areas and in suburbs across our major metropolitan areas, as was recently set out in the interim report by the Productivity Commission.

Also, most recently, Cyclone Debbie resulted in tragic loss of life, and the widespread damage and flooding in Queensland and northern New South Wales will also have an economic impact.

While the impact on national economic growth is not likely to be large, there will be challenges in the affected regions associated with supply disruptions for coal and certain crops, such as capsicum, tomatoes and sugar. Together, preliminary estimates suggest that the effects of Cyclone Debbie could detract around a ¼ percentage point from growth in the June quarter.
Modest wages growth since the end of the mining investment boom also remains a challenge.

By one measure, the Wage Price Index, wages growth was just 1.9 per cent through the year to the December quarter 2016.

It has been some time since most hard-working Australians have received a decent pay rise and we recognise this has put real pressure on households and families that are struggling to face cost of living pressures including rising electricity prices.

And, the unemployment rate has fluctuated between 5.6 and 5.9 per cent since February 2016.

That said, employment growth picked up in March, increasing by around 61,000 jobs, reflecting an increase in full-time jobs. Almost 160,000 full-time jobs have been created over the past six months.

Since the Government came to office almost 600,000 new jobs have been created, but we need to keep employment growth going to drive increases in wages.

To do that, we need businesses to grow and while survey measures of business conditions are well above average and business lending rates are around record lows, businesses tell a more complex story, with some industries, most notably retail, facing significant competitive pressures.

**Debt and housing markets**

There are also the risks in our east coast housing markets, that requires careful and measured responses.

Around eighty per cent of Australia's $2.1 trillion household debt is in mortgages.

Australian households are now the fourth most indebted in the OECD as a share of income – behind Denmark, the Netherlands and Norway.

However, we should also bear in mind that low interest rates, increasing household assets, and our debt concentration in higher income households, provide some comfort about the
serviceability of this debt. The asset coverage on these debts is over five fold.

But that does not mean we should be complacent and nor are we. As the RBA have noted, sustained increases in interest rates would put more pressure on mortgage holders.

That is why the Government and the regulators are closely monitoring developments in this space to ensure that the risks are being effectively managed.

To assist in addressing these risks, APRA recently announced further macro-prudential measures to improve the quality of residential mortgage lending, in particular for interest only loans.

APRA’s decision to announce these carefully calibrated and proportionate set of measures was the right one.

These measures were accompanied by further actions by ASIC on responsible lending and follow earlier APRA measures in December 2014 in response to concerns about declining lending standards and growth in lending to housing investors.

RBA Governor Dr Lowe, has noted that the concern is not that developments in the housing market pose a risk to financial stability - our financial system is strong, resilient and our banks are well capitalised.

But we must be alive to the very real risks of a hard landing in the housing market, which would potentially have very serious negative spill overs for the broader economy.

That is why it’s imperative we use a scalpel rather than Labor’s chainsaw when it comes to dealing with investor pressures in the housing market.

We are already seeing signs the heat in our housing markets may be coming off, especially in the apartment market. Cooling foreign investor interest, due to tougher foreign investment rules implemented by our Government and capital outflow restrictions in China, are already having an impact. The number of foreign investment applications for residential housing has fallen from 40,000 last year to an expected 15,000 this year.
Care must be taken to temper excessive investor activity that can inflate the market where there is a supply demand imbalance. Equally a policy overreaction could have very real negative impacts, causing a broader housing shock that would undermine economic confidence, negatively impact household consumption and hinder economic growth.

The Labor Party have proposed dangerous and dramatic changes on negative gearing with no thought or appreciation of the consequences. Unlike regulatory measures which can be quickly recalibrated to suit changing conditions, once Labor’s changes are made they are a very difficult to alter, and you are strapped into the consequences that follow.

It is also worth observing that Labor’s proposals to increase capital gains tax as well as removing borrowing requirements for SMSFs (which incidentally make up a miniscule share of the residential housing market), apply to investment in shops, factories, warehouses, businesses and offices.

How does taxing Australian investors more to build and buy shops, offices and factories improve housing affordability, and how does this help boost much needed business investment?

Similarly, by axing negative gearing for mum and dad Australian investors in existing real estate, they are pitching investors directly against first home buyers in new developments. At the same time they would create a “car lot effect” for those who buy new homes and apartments.

We all know that when you buy a new car, it falls in value the minute you put the keys in the ignition and you drive it off the lot. Labor’s policy on negative gearing will do the same thing.

The second you put the key in the front door in your new home or apartment, it turns into an old one and you are now selling into a smaller secondary market than the one you bought it in.

**Fiscal strategy**

Turning to fiscal strategy, our first principle is that the Government remains committed to returning the budget to balance.
We can never know what the future has in store for us. We need to plan ahead. This means rebuilding our fiscal buffers to deal with future surprises in the economy.

The Budget is currently projected to return to balance in 2020-21. And of course, as is standard practice, I will be updating these projections on Budget night.

Our first priority for budget repair remains controlling growth in expenditure. It is not sustainable for Australia to continue financing our recurrent expenditure by borrowings.

Australians understand taking out a mortgage to pay for their home is a wise investment for their future. But they also know that putting your everyday expenses on the credit card is not a good idea. It doesn’t end well.

This is basically the difference between good and bad debt.

The same is true for Government.

It can be very wise for Governments to borrow, especially while rates are low, to lock in longer term financing and invest in major growth producing infrastructure assets, such as transport or energy infrastructure. But to rack up government debt to pay for welfare payments and other everyday expenses, is not a good idea. This is a critical part of ensuring that Government lives within its means.

The way we have done budgets in the past at the Commonwealth level does not currently make the distinction between good and bad debt.

All debt is lumped in together, whether it is for capital or recurrent purposes.

In this Budget we will be making changes to the way we report Government debt and link it to Government spending, by increasing the visibility on good and bad debt.

These changes will make clearer the share of expenditure that is contributing to investment that increases productive capacity and produces future income and the debt that is being incurred
to deal with everyday expenditure.

This will be done by reporting the net operating balance alongside the underlying cash balance. The underlying cash balance does not differentiate between recurrent expenditure and investment in productive capital, including infrastructure. The net operating balance helps to make this distinction.

In this budget we will also be assigning the level of Government debt across portfolios. We all need to understand what is driving the growth in our public debt and we need to budget in a way that creates accountability for increasing public debt and the interest payments that go with it.

Currently, when increases in expenditure are proposed the public debt implications are considered separately. Imagine if in your own household or business, someone wanted to spend more but didn't have to account for the credit card debt and interest to pay for it. What would happen? What we are doing is beginning the process of changing this spending culture. Portfolios will be held responsible for the debts they are incurring for future generations as a result of their expenditure.

At the same time we will be providing room for common sense decisions to invest in our economy, by utilising our balance sheets to support investment that boost growth and the jobs and wages that depend on that growth.

Investments in productive capital projects provide returns that will be enjoyed by future generations. This is why it is important that we think about these investments in a different way to recurrent spending.

While the net operating balance has been a longstanding feature of our budget papers, it has not been in clear focus. This change will bring us into line with the states and territories who report on versions of the net operating balance. Key international counterparts, including New Zealand and Canada, also focus on similar measures.

The underlying cash balance will, of course, continue to be the key measure reported in the budget papers. It remains the basis
for our fiscal strategy of achieving a sustainable budget surplus as soon as possible. Nothing changes about this core strategy.

Again, I look forward to having more to say about this on Budget night.

**Investor confidence**

Progress in balancing the Budget will also help maintain the confidence of financial markets, with Australia one of ten countries to be AAA rated by all three major ratings agencies.

Having your debt highly rated, however, is not a trophy achievement that you take home and put on the shelf. It is something that must be constantly worked to maintain because it can have real consequences.

Investors losing confidence in your debt means that you have to spend more on interest payments and less on the fundamental services that Australians rely on - less on schools, hospitals and infrastructure.

That is why we work so hard on ensuring that the Budget is sustainable. And that is why the more than $25 billion in savings we have delivered are so important.

Markets and rating agencies also look closely at other developments beyond just the Government’s balance sheets and that is why we must demonstrate that we are reducing risks across the economy.

They also look at our external balances. While much of the economy wide debt I discussed earlier has been financed by domestic savings, some has been financed internationally, as Australia’s investment opportunities exceed our domestic savings. Taking into account Australian foreign holdings, Australia has a net foreign debt of around 60 per cent of GDP.

This is not because our savings are low - they are above the G7 average - but because our investment opportunities are so abundant. As such, Australia has always had a current account deficit that has needed to be financed.

But the current account deficit in the December quarter was the
lowest in over 30 years as a share of GDP, at just 0.9 per cent of GDP.

So even for those that look at the challenges Australia faces through the lens of the twin deficits, substantial progress is being made on all counts and Australia's position is stronger today than it was a year ago, and since the Government came to office.

Following the mid-year update, all three rating agencies affirmed Australia's AAA status.

But perhaps just as importantly, financial markets have endorsed the government's management with record take-up of recent debt issuances.

In February, the AOFM sold a record $11 billion of sovereign debt against approximately $20 billion in orders. This followed a $9.3 billion issue in January that was also oversubscribed.

**Commodity price context**

Finally, higher commodity prices over the last year have provided a boost to our terms of trade and our nominal economy.

This can, of course, have implications for the revenue outlook and the budget bottom line.

But, as you all know, commodity prices are highly volatile.

We knew that we could not rely on the spike in prices that occurred late last year being sustained. We expected prices to fall and took the prudent approach at MYEFO to deviate from the process at past Budget updates and instead assume that elevated prices would fall from recent averages towards longer-term assumptions, based on our consultation with industry.

And while this price gain persisted over much of this year, here we are, weeks out from the Budget and iron ore prices have fallen noticeably.

A key challenge we face as a Government is how to best navigate this volatility, to help set a sensible trajectory for our overall budget repair strategy.
Given the uncertain nature of commodity prices, it's important to continue to have conservative and credible judgments behind our forecasts, and that, as has been outlined in the Government’s previous Budgets, any positive surprises that may eventuate go straight to budget repair rather than being used to fund new spending initiatives.

Closing remarks

To finish, let me thank the Australian Business Economists for hosting today’s event.

I look forward to delivering the Budget when Parliament returns.

Most of all, I look forward to building on the Turnbull Government’s national economic plan to drive jobs and growth that I announced last year, to deliver more and better paying jobs for Australians.

I also look forward to providing the assurances that hardworking Australians need for the services that they rely on, and putting downward pressure on rising costs of living.

And to ensure, as always, that the Government lives within its means.

It’s the right plan for Australia.

As a Government we will continue to make the right choices for what we believe are better days ahead for our economy.

Thank you.
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