# 1. OVERVIEW

The 2017-18 Half-Yearly Review provides an update on the fiscal and economic position of New South Wales since the 2017-18 Budget, handed down on 20 June 2017.

The NSW economy is outperforming the nation, growing well above-trend in 2016-17 and accounting for almost half of Australia's economic growth in 2016-17. Above-trend growth is expected to continue over the next two years, driven by strong business investment and the State's record investment in infrastructure.

New South Wales currently has the lowest unemployment rate among the states, at 4.6 per cent, and is recording stronger growth in full-time jobs than the rest of Australia.

The State's fiscal position is even stronger than at the 2017-18 Budget, with an expected $3.3 billion budget surplus for 2017-18 and surpluses averaging $2.1 billion across four years (see Chart 1.1).

Net debt is at a record low for the second year in a row. At 30 June 2017, net debt was negative $9.3 billion. This record low net debt has been driven by the successful conclusion of the partial long-term leases of electricity network businesses.

Following the 2017-18 Budget, the State's triple-A credit rating was reaffirmed by both major ratings agencies. The triple-A credit rating reflects the State's strong economic and fiscal position as well as its sound financial management.

This robust fiscal position has enabled the Government to provide more cost of living relief for families, complementing the 2017-18 Budget's major cost of living initiatives – the First Homebuyer Assistance Scheme and Active Kids Rebate. The 2017-18 Half-Yearly Review includes funding for new cost-saving measures, including energy rebates and toll relief, while maintaining budget surpluses in line with 2017-18 Budget forecasts.

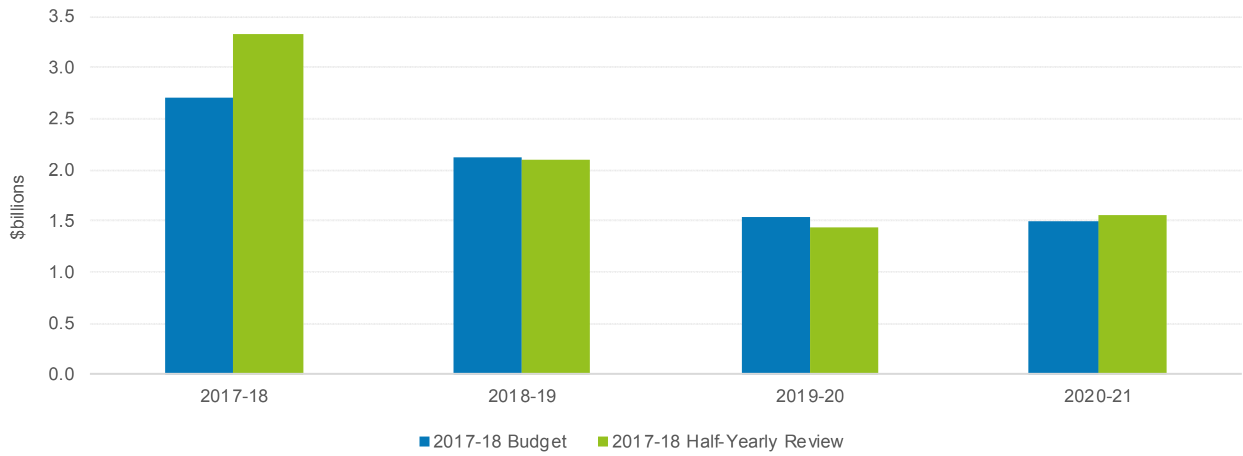
New South Wales continues to account for around 40 per cent of estimated infrastructure spending by all states and territories in 2017-18, and the 2017-18 Half-Yearly Review reflects another record infrastructure program in New South Wales.

Total capital expenditure is forecast to be $80.1 billion over four years, a $7.4 billion increase since the 2017-18 Budget. This incorporates $3.0 billion of new spending announced since the 2017-18 Budget, principally for Parramatta Light Rail Stage 1, and $4.3 billion in Restart NSW reservations that have been included in the Budget for the first time (see Chapter 3.6).

The State's net worth continues to grow, and New South Wales remains on track to be the first Australian state with net worth exceeding a quarter of a trillion dollars by June 2019. This is driven by strong budget surpluses and the Government's asset recycling strategy facilitating record infrastructure investment.

Notwithstanding the State's solid budget surpluses, there will be challenges in the years ahead due to revenue and expense pressures. These challenges will require the Government's continued financial discipline. It will also require the pursuit of reforms that drive economic growth and support a sustainable budget position over the long-term.

*Chart 1.1: Budget results in line with the 2017-18 Budget*




## 1.1 Fiscal outlook

The NSW Government is continuing to maintain expenditure growth while enabling record investment in infrastructure and services.

A surplus of $3.3 billion is expected in 2017-18 (see Table 1.1). This reflects $76.5 billion in expenditure to deliver world-class services to the people of New South Wales. The projected budget surpluses from 2018-19 onwards will support the Government to deliver on its priorities and will also assist the funding of the State's record infrastructure program.

*Table 1.1: General government operating statement aggregates*

| | 2016-17 Actual [a] | 2017-18 Budget | 2017-18 Revised | 2018-19 | 2019-20 Forward Estimates | 2020-21 |
|---|---|---|---|---|---|---|
| Revenue ($m) | 78,139 | 79,885 | 79,842 | 80,755 | 83,142 | 84,594 |
| Expenses ($m) | 72,551 | 77,186 | 76,510 | 78,661 | 81,699 | 83,036 |
| Budget Result ($m) | 5,724 | 2,698 | 3,332 | 2,093 | 1,442 | 1,558 |

(a) Transactions from discontinued operations contributed a further $136.0 million to the budget result in 2016-17.

The estimated budget result surplus of $3.3 billion in 2017-18 is $634.0 million higher than expected in the 2017-18 Budget.

- Revenue in 2017-18 is projected to be $42.9 million lower than forecast. This is largely driven by a downward revision in taxation revenue, primarily reflecting first homebuyers responding strongly to transfer duty relief.
- Expenditure in 2017-18 is expected to be lower than previously forecast. This is driven by reprofiling of expenditure to better align with planned activity. The decrease in expenditure more than offsets the reduction in revenue, resulting in a higher budget surplus.

Over the four years to 2020-21, budget surpluses in New South Wales are expected to average $2.1 billion.

- Forecast revenue is $2.0 billion higher than at the Budget. Of this, $1.0 billion is from higher taxation revenue, as the strength of NSW employment and the property market flow into higher payroll tax and land tax revenue, respectively (see Chapter 3.2).

- Expenses across the budget and forward estimates have been revised up by $1.4 billion. This reflects the Government's continued investment in priority areas, including easing the cost of living for the people of New South Wales (see Chapter 3.3). Expenses have also been revised up to include the future spending of Restart NSW reservations in the Budget (see Box 3.9). Overall, the increase in expenses largely offsets the projected increase in revenue.

For the second consecutive year, the NSW Government ended the 2016-17 financial year with negative net debt, improving by 0.2 per cent to negative 1.6 per cent of gross state product (GSP). This is the lowest net debt amongst all states and territories. The State's net debt is forecast to remain negative at the end of June 2018.

**Box 1.1: NSW Budget leading the nation**

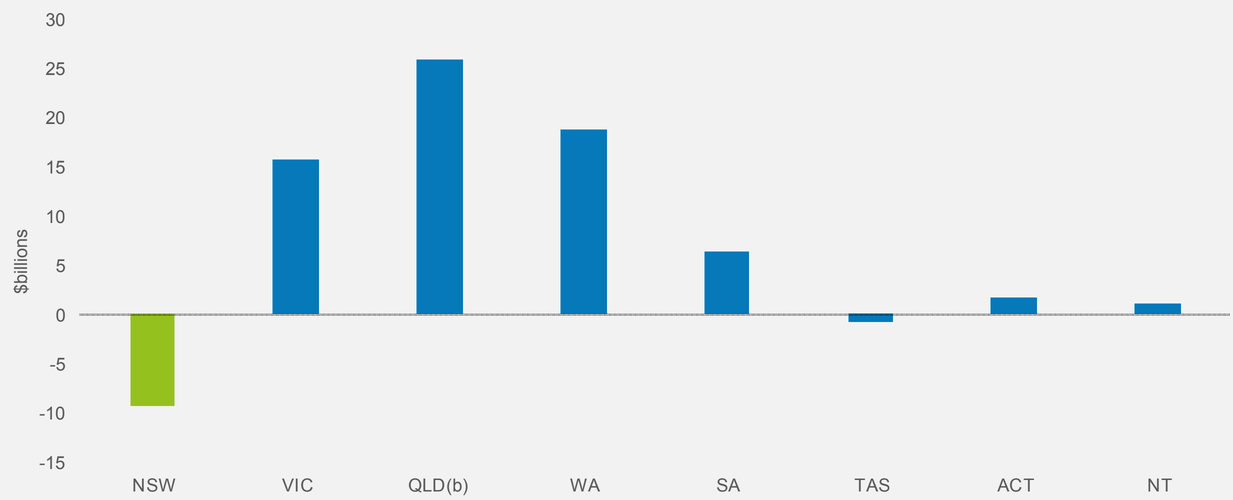
The NSW Budget remains the strongest in the country with:

- budget surpluses averaging $2.1 billion across the four years to 2020-21
- record negative net debt of $9.3 billion at June 2017
- triple-A rating reaffirmed by both major ratings agencies
- once-in-a-generation $80.1 billion infrastructure pipeline, the largest ever across Australian states.

The Government's successful asset recycling strategy is helping fund the State's record infrastructure program. This allows the Government to focus on vital infrastructure for the people of New South Wales without relying on significant increases in debt. As at June 2017, net debt was negative $9.3 billion, lower than any other state or territory (see Chart 1.2).

These strong results are consistent with the *Fiscal Responsibility Act 2012*, which commits the Government to maintaining the State's triple-A credit rating and adhere to principles of sound financial management.

*Chart 1.2: NSW records the lowest net debt in Australia as at 30 June 2017* [(a)]




(a) All states and territories shown as per published 2016-17 final outcomes, except SA and ACT as per 2017-18 Budget.
(b) QLD reported net debt is adjusted for its superannuation assets treatment, making all states and territories comparable.

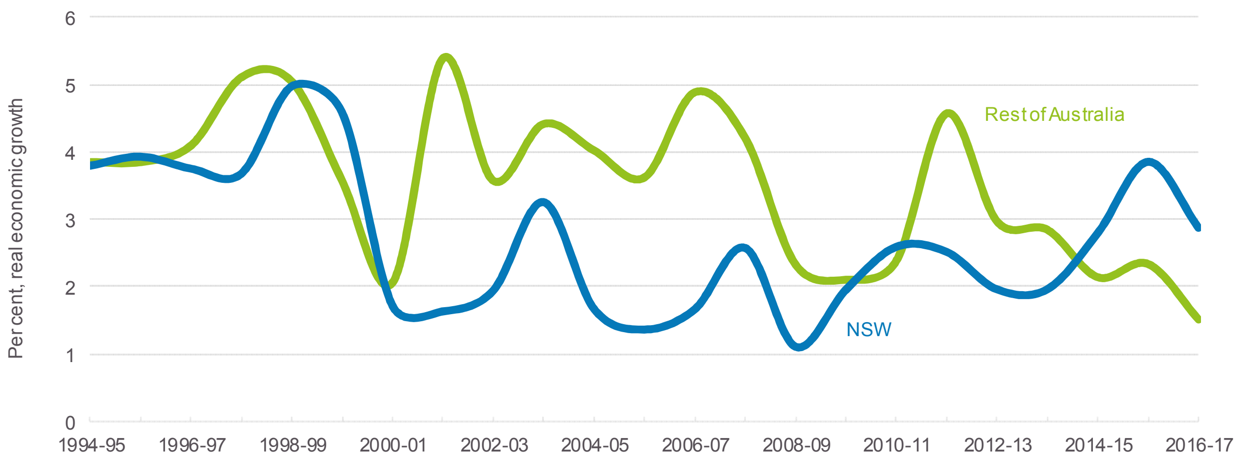
*Source: State Budget Outcomes 2016-17 and Budget Papers 2017-18*

## 1.2 Economic outlook

The NSW economy is expected to perform strongly in both 2017-18 and 2018-19, growing by 3 per cent, and 2¾ per cent respectively.

The NSW economy outperformed the nation in 2016-17, with GSP growing by 2.9 per cent, well above the long-run average of 2.6 per cent. Australia, in comparison, grew by only 2 per cent (see Chart 1.3). In per capita terms the comparison was even more notable, with NSW growth of 1.4 per cent - triple the national average.

*Chart 1.3: The NSW economy continues to outperform the nation*




*Source: ABS 5220.0 and Treasury*

The economic outlook for New South Wales is strong. The State's asset recycling strategy to fund infrastructure investment remains a key pillar of economic growth, with new projects being added to what was already a historically large construction pipeline.

Other factors that underpin a strong economic outlook include strengthening national and global economies, low interest rates, a lower Australian dollar, strong demand from Asia and above-trend population growth. New South Wales is expected to continue to outperform the national economy in 2017-18.

Labour market conditions have firmed since the 2017-18 Budget. The State's unemployment rate has fallen to 4.6 per cent, which is the lowest among the states. There has been strong full-time employment growth and more people are choosing to participate in the labour market.

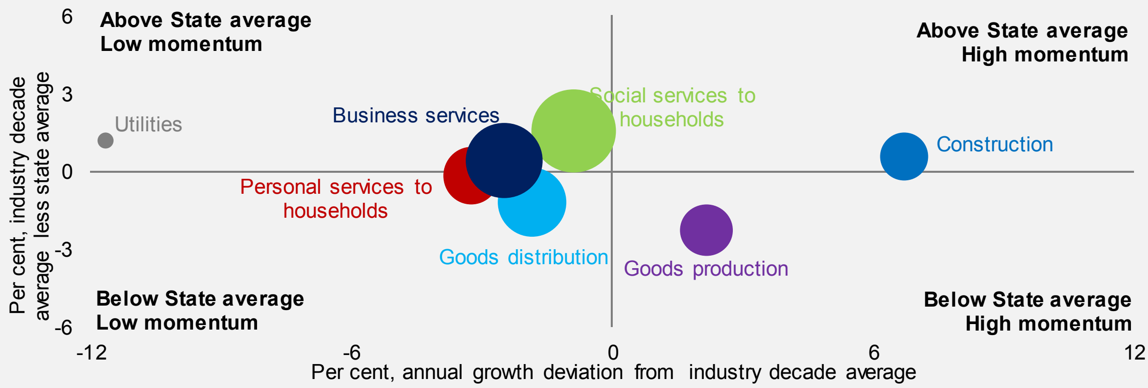
Employment is expected to grow by 2½ per cent this year, well in excess of population growth. Despite this strength in New South Wales, ongoing spare capacity nationally and strong inward migration is expected to constrain wage growth over the medium-term.

### Box 1.2: The housing and infrastructure boom is driving jobs growth[1]

New South Wales has experienced strong jobs growth over the last two and a half years. Since April 2015 employment has grown at an annual average rate of 2.3 per cent, well above the long-run average of 1.6 per cent. This has delivered an increase of 219,000 jobs, exceeding the Government's election commitment to deliver 150,000 jobs by 2019.

The record level of construction activity – led by dwelling investment and the public infrastructure boom – has been a key driver of this job creation, with above-average growth in construction employment of 8.8 per cent in the year to August 2017 (see Chart 1.4). The strength in construction employment is all the more impressive as it has been persistently strong over the last decade, increasing by 2.1 per cent a year – well above the overall state average of 1.6 per cent. This is expected to continue.

*Chart 1.4: Employment growth by industry: decade average vs recent momentum[(a)(b)(c)]*




(a) The size of circles indicate the size of the industry group.
(b) All figures are in four-quarter moving average terms (non-seasonally adjusted) to August 2017.
(c) High/low momentum refers to an industry currently growing above/below its decade average, while above/below State decade average refers to an industry's performance over the last decade.

*Source: ABS 6291.0.55.003 and Treasury*

While housing activity is close to peaking at record levels, investment in public infrastructure is expected to continue to boost economic growth by an average of ½ a percentage point a year over the next two years, five times its historic average. Businesses are also positioned to push construction activity even higher, with strong business conditions and elevated capacity utilisation in accommodation, office spaces and education facilities. This has led to broad-based strength in non-residential building approvals and is flowing through to employment, with non-residential construction employment at its highest level on record.

The record public infrastructure program, other government initiatives such as the Jobs Action Plan and Small Business Incentive Scheme, and resurgence in business investment will provide continued support for jobs and economic growth – improving services and enhancing economic opportunities.

[1] Business services include rental, hiring & real estate, finance & insurance, administrative support, professional, scientific & technical and IT & Communications. Social services include public administration & safety, education & training, and health & social assistance. Goods production includes manufacturing, mining and agriculture. Goods distributions includes, wholesale trade, retail trade and transport, postal & warehousing. Personal services include arts & recreation, other services, and accommodation & food.