

Strategy and Outlook

2009-10



Presented by

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for the information of Honourable Members

TABLE OF CONTENTS

Introduction	1
Chapter 1 – Economic and Fiscal Strategies and Objectives	3
The economy and the Budget	4
Current economic conditions and outlook.....	4
Responding to current challenges	5
Ensuring long-term strong sustainable growth	6
Sustainable Fiscal Strategy	7
Chapter 2 – Economic Conditions and Outlook	19
Victorian economic projections.....	20
Economic overview	21
Risks to the outlook	33
Chapter 3 – Budget Position and Outlook	35
Budget estimates and outlook	35
Operating statement analysis	39
Fiscal risks.....	46
Use of cash resources.....	48
Financial position.....	51
Key financial indicators.....	56
Chapter 4 – Financial Sustainability of Victorian Government	59
Introduction.....	59
Financial performance of the public non-financial corporations sector	60
Financial performance of the non-financial public sector.....	61
Use of cash resources by the non-financial public sector.....	63
Financial position of the non-financial public sector	66
Financial sustainability.....	67
State financial indicators and credit ratings	70
Chapter 5 – Economic Reform Agenda	71
Skilling the workforce for transition and recovery	72
Improving business competitiveness	73
Delivering more efficient infrastructure and facilitating investment	76
Improving the efficiency of government's own operations	78
Adjusting to a carbon constrained economy.....	79
Reforming Commonwealth-State financial relations	80
The strengthened case for reform	82
Appendix A – Operating Statement Reconciliation	85
Introduction.....	85
Appendix B – Sensitivity Analysis Table	93
Introduction.....	93
Style Conventions	99
Index	101

INTRODUCTION

Budget Paper No. 2, *Strategy and Outlook*, describes the State's economic and financial position and performance while also outlining its fiscal strategy. This budget paper analyses the effects of the current global economic downturn on the Victorian economy. It demonstrates the State's commitment to responsible fiscal management in these challenging times, using operating surpluses to underwrite increased investment in productive infrastructure to support key services.

This budget paper takes into account the financial impacts of all policy decisions taken by the Victorian Government, as well as Commonwealth Government funding revisions and other information that affects the projected general government (GG) sector financial statements as at 29 April 2009 unless otherwise stated. Financial impacts of decisions taken after that date, including the April meeting of the Council of Australian Governments will be reflected in the *2009-10 Budget Update*.

Budget Paper No. 2 is the primary source for information on the State's financial performance and forward projections, and consists of the following chapters and appendices.

Chapter 1 – Economic and Fiscal Strategies and Objectives

Chapter 1 focuses on the Victorian Government's economic and fiscal strategies in the context of the *2009-10 Budget*, including the impact of the global and domestic economic downturn. It details Victoria's five financial policy objectives, which embody the principles of sound financial management, and discusses how the *2009-10 Budget* will contribute to the achievement of these goals.

Chapter 2 – Economic Conditions and Outlook

Chapter 2 provides an overview of the current economic conditions in Victoria in the context of the global financial climate. It provides a detailed discussion of the projected trends in the key measures of economic growth; gross state product, employment, unemployment, inflation, wages and population. The chapter also details the key risks and challenges facing the Victorian economy.

Chapter 3 – Budget Position and Outlook

Chapter 3 outlines the GG budget position as well as the forward years estimates. It shows how the Government's economic and fiscal strategy, outlined in Chapter 1, will impact on the GG sector's financial performance and position in the context of the economic environment, as discussed in Chapter 2.

The chapter includes a summary of the forecast movement in key financial aggregates across the forward estimates, along with the major factors behind these movements. It discusses the assumptions underpinning the financial projections and comments on their sensitivity to fiscal risks.

Chapter 4 – Financial Sustainability of Victorian Government

Chapter 4 presents an overview of the activities of the broader public sector by adding the State's public non-financial corporations (PNFCs) to the GG sector's financial information, as presented in Chapter 3.

This chapter explains how the fiscal aggregates contribute to the Government's objective of maintaining net financial liabilities at prudent levels, including the maintenance of a triple-A credit rating.

Chapter 5 – Economic Reform Agenda

Chapter 5 discusses Victoria's economic reform agenda. The current economic downturn has reinforced the need for Victoria to pursue its vigorous program of reform to ensure that the State is well placed for the economic upturn, and to address medium and long-term challenges.

The chapter provides an overview of reforms underway to address the challenges posed by slowing economic growth, an ageing population and climate change. It identifies opportunities for further or accelerated reform as a result of the current downturn. The chapter also includes analysis of developments at the national level, including an overview of new Commonwealth-State financial arrangements.

Appendix A – Operating Statement Reconciliation

Appendix A reconciles the movement in the State's forward estimates between those in the *2008-09 Budget Update* and those in the *2009-10 Budget*. As part of this reconciliation, explanations are provided on the key elements driving the movements in estimates.

Appendix B – Sensitivity Analysis Table

Appendix B details the economic indicators and assumptions underpinning the forward estimates from 2009-10 and illustrates the impact that changes to these assumptions will have on the State's budget position.