



State Budget 2008/09 - Overview

Tourism, Events and Natural Assets

Containing new initiatives to reduce business costs, meet the challenges of a growing population and its pressures on improved transport, education and health care, VECCI has welcomed the release of the 2008/09 State Budget.

This year's Budget maintains the Government's commitment to responsible economic management with a forecast **operating surplus** of \$828 million for 2008/09 and surpluses averaging \$907 million over the following three years - this will assist in underpinning business and investor confidence going forward.

Total revenue is expected to increase by \$1.6 billion or 4.1 per cent a year on average over the Budget and forward estimates period (to 2011/12). In terms of the sources of revenue growth, grants from the Commonwealth are forecast to rise on average by 5.2 per cent a year over this period and total taxation revenue grow, on average, by 3.8 per cent a year*

Total outlays are similarly forecast to increase by an average of \$1.6 billion or 4.1 per cent a year, over the forward estimates period.

Net debt will increase to fund major infrastructure projects – rising from 2.2 per cent of Gross State Product (GSP) in June 2008 to 7.1 per cent in June 2012. However, this level will be well below the average of most other States until 2011 and has not led ratings agencies to readjust their rating of Victoria's financial and credit worthiness from AAA.

Net infrastructure investment is estimated to increase by \$4.0 billion in 2008/09 and average \$4.4 billion a year to 2012. Major new expenditure includes:

- \$1.8 billion for improvements to Victoria's transport infrastructure, including \$794 million for the public transport network, rail freight and port projects.
- \$769 million for better roads.
- \$592 million to build. Replace or renovate 128 schools across the State.
- \$466 million for hospitals, health and aged care facilities, as well as extra funding for maternal and child health services.
- \$733 million for prisons, police and the State's justice system.

*

VECCI notes that payroll tax revenue is projected to grow by 5.9 percent a year on average to 2011/12. This reflects the Government's view of expected employment and wages growth. However, given that the Budget papers also forecast a slowing in employment growth over the forward years, it would appear the risk of higher wages in the economy generally is to the upside.

Tourism, Events and Natural Assets

The 2008/09 Budget aims to boost Victoria's profile in domestic and international markets, provide better and safer access to the State's world class parks and reserves. Among the new initiatives are:

- \$13.3 million over four years to support the marketing of the tourism sector in regional Victoria to the domestic markets.
- \$8 million over four years to promote Victoria in key international markets in both traditional and emerging markets, and to attract additional air services to Melbourne.
- \$10.8 million over two years to further increase business tourism to Victoria.
- \$3 million to host the 2009 Australian Tourism Exchange to be held at the new Melbourne Convention Centre.
- \$60 million to upgrade 300 bridges in Victorian parks and reserves.
- \$10.7 million to enhance Victorian National Parks and Conservation Reserves, including \$3 million over four years to create a new 27,000 hectare Cobbobonee National Park and Forest Park in Victoria's south-west.
- \$110 million to the Natural Resources Investment program to support volunteer groups, agencies and regional communities to undertake activities that address key environmental issues including conserving species and habitat, water quality and responding to climate change.
- \$5 million to upgrade key facilities around Port Phillip Bay and enable the development of investment models to revitalise Port Philip and Westernport Bay tourism and industry-related facilities.

Economic Outlook

According to the Budget forecasts, the Victorian economy is expected to grow by 3.25 per cent in 2007/08, lower than the consensus forecast for national economic growth of 3.7 per cent. This moderate growth follows on from 2006/07 when Victoria recorded the strongest growth of the non-resource states.

Following moderate expansion in 2007/08, **economic growth** is expected to settle at a trend growth rate of around 3 per cent in the forward years. National economic growth is also forecast to ease over this period.

Economic growth over the next two years is expected to be relatively broad-based, with contributions from the business sector, residential housing investment and household spending, as well as a moderate recovery in the rural sector.

Slower growth is expected to result from more moderate household consumption growth resulting from higher interest rates and petrol prices, and moderate dwelling investment. Non-residential building construction is expected to be the main driver of near-term business investment growth.

Looking ahead, Victorian **export growth** is expected to be affected by the combined influences of weaker global growth and the high Australian dollar. Some rebounding in farm incomes is anticipated due to the strength of agricultural commodity prices.

Victorian service exports are forecast to perform well in light of the strength of demand in key markets like China and India.

The **labour market** is expected to perform solidly but will be tempered by weaker domestic demand. Employment growth is forecast to slow from recent above-trend rates, with the unemployment rate expected to increase slightly over the forecast period. Population growth is projected to be slightly higher over the short-to-medium term, mainly due to higher forecast net overseas migration.

Upward pressure on **wages growth** is expected to remain in the short-to-medium term, resulting from historically high unemployment, higher inflation expectations and continued difficulties in attracting and retaining labour.

Price growth is expected to remain high over the short term before easing over the later forecast period.

The Budget identifies a number of potential **risks** to the Victorian economy over the forward period, including recovery in the rural sector, oil price volatility, wage and inflationary pressures, exchange rate movements and uncertainty surrounding the global economy and financial markets.

* * * * *