

## Overview

The latest National Accounts show the Queensland Economy leads the mainland states and territories in terms of domestic economic growth in March quarter 2019, while Queensland's 2¾% forecast growth in gross state product (GSP) in 2018-19 is expected to outpace forecast national gross domestic product (GDP) growth of 2¼%.

The underlying performance of the State's economy has been strong due to the unwavering commitment and focus by the Government to drive own-source revenue, focus on jobs and deliver the infrastructure necessary to support private sector investment.

Queensland has a dynamic, diversified export economy. The Government has built a strong, sustainable and growing export capability which has delivered 13 consecutive months of record annual export totals, with the 12 months to April 2019 topping \$85 billion. This is more than the total overseas goods exports of NSW and Victoria combined over the same period.

The top two export commodities in total export value were metallurgical coal (\$37.4 billion) and liquefied natural gas (LNG, \$15.2 billion). The LNG industry, which did not even exist in Queensland a decade ago, recorded more than twice the export value of thermal coal.

The 2019-20 Budget forecasts continuing strong growth for the coming financial year, with GSP forecast to grow by 3%.

However, in the face of this performance, national and global economic conditions have continued to deteriorate since late 2018 and forecasts indicate there will be a further weakening in global conditions. This uncertain external environment provides context for GSP growth to moderate to 2¾% over the forward estimates period beyond the 2019-20 financial year.

The Queensland Government will continue to use all levers at its disposal to drive economic growth and maintain a strong economy despite the loss of revenue due to the continual erosion of the State's share of GST.

The impact of the Commonwealth's GST reductions since the Mid Year Fiscal and Economic Review (MYFER) is taking \$1.5 billion out of Queenslanders' pockets over the forward estimates. The actions taken by the Commonwealth Government have meant that Queensland is the only jurisdiction in the Commonwealth that will receive less GST revenue in 2019-20 than in the previous year. These challenges are in addition to the budget impact of natural disasters which occurred in the 2018-19 year with a total cost of \$1.3 billion over the forward estimates.

While Queensland is unique in receiving less GST revenue, the impact of subdued activity in the housing market nationally has delivered a revenue reduction across many jurisdictions. In Queensland, transfer duties have been revised down by \$1 billion since the Mid Year Fiscal and Economic Review over the forward estimates period. Despite facing these headwinds, segments of the State's dwelling construction industry have held up well, with labour-intensive additions and alterations activity hitting a record high in March quarter 2019.

The net operating surplus for this year is almost \$700 million higher than forecast in the 2018-19 Budget. The State has conservatively budgeted revenue outcomes and this trend has been replicated for the past three budget years.

Over the preceding three budgets, revenues have exceeded original budget forecasts by \$7.3 billion. A continuation of this trend, of exceeding the 2019-20 Budget forecasts by 4%, would see an additional \$2.4 billion in actual revenues above the level currently forecast for 2019-20.

The 2019-20 Budget maintains its consistently prudent approach to forecasting revenue growth and delivering on the fiscal principles of the Queensland Government.

Building on the successful strategies, initiatives and substantial investment implemented in the Government's four previous budgets, the 2019-20 State Budget will continue to drive sustainable economic growth and create secure, well-paid jobs across all regions of Queensland.

Following the strong economic growth and 199,000 jobs created since 2015, ongoing solid jobs growth is forecast in Queensland over the four years to 2022-23.

In the face of a changing global landscape, Queensland's businesses, industries, communities and regions continue to grow and adapt as the State successfully transitions to a more resilient and diversified economy.

As Queensland's economy continues to evolve and grow, the 2019-20 Budget and the Government's economic plan will help create jobs across all regions of the State through an enhanced focus on:

- supporting businesses and business-led growth
- delivering sustainable investment in productive infrastructure and essential services
- fostering the next wave of innovation and investing in ideas
- investing in skills and training for current and future generations of Queenslanders.

### **Payroll tax initiatives - Supporting Queensland business and backing jobs**

Queensland's small, medium and growing businesses across all regions will benefit from a \$885 million package of targeted payroll tax initiatives, making it easier for businesses to grow, invest and employ more Queenslanders.

Key elements of the package to be implemented in 2019-20 include:

- an increased exemption threshold – rising from \$1.1 million to \$1.3 million, which will benefit employers with annual wages up to \$6.5 million
- regional payroll tax discount – from 1 July 2019, a 1% payroll tax discount will apply for eligible employers with 85% of their employees outside of South East Queensland
- employment growth rebate – for two years from 1 July 2019, employers that have increased their number of full-time employees will be eligible for a rebate on the payroll tax paid on these additional employees

- extension of apprentice and trainee rebate – the Government is also extending the successful 50% payroll tax rebate for apprentices and trainees until 30 June 2021. Since the introduction of the rebate in 2015-16, over 5,300 businesses have claimed a total of \$76 million in rebates.

### **Growing our regions**

The Queensland Government continues its commitment to building stronger regional economies by investing in transformative infrastructure to encourage industry development, investment, innovation, and creating secure and well paid regional jobs.

Close to 60% of the \$12.9 billion capital works program in 2019-20 is to be delivered in regions outside of the Greater Brisbane area, supporting 25,500 jobs in those regions.

Other key initiatives in the 2019-20 Budget supporting economic growth and jobs across regional Queensland include:

- ongoing funding of the \$600 million Works for Queensland program to support job-creating maintenance and minor infrastructure works across regional Queensland
- transformative regional tourism infrastructure projects such as \$41.4 million to develop the Wangetti Trail ecotourism walk from Palm Cove north to Port Douglas; and \$25 million to help industry rejuvenate the Great Barrier Reef Island resorts
- \$110 million over four years from 2019-20 to provide further support for the North West Minerals Province and to promote mining exploration and investment in the region; and the \$193.5 million Townsville Port channel capacity upgrade
- a \$70 million boost to Building our Regions, bringing total funding for the program to \$515 million, of which \$365 million is administered by the Department of State Development, Manufacturing, Infrastructure and Planning and \$150 million is administered by the Department of Transport and Main Roads through their Transport Infrastructure Development Scheme
- an increased commitment of \$25 million to the Jobs and Regional Growth Fund, bringing the total funding of this program to \$175 million, to assist businesses and projects that will generate ongoing economic development and employment opportunities in regional Queensland.

### **Investing in infrastructure**

The \$49.5 billion capital works program over four years outlined in the Budget will directly support private sector jobs, with the \$12.9 billion capital works program in 2019-20 estimated to directly support 40,500 jobs across the State.

To further enhance the productive capacity of the State's businesses, industries, communities and regions, the Government will deliver a \$5.6 billion investment in transformative transport infrastructure in 2019-20. In addition, the energy and water portfolios will invest \$2.7 billion in infrastructure in 2019-20 to support the ongoing delivery of safe, secure, reliable and cost-effective energy and water across the State.

Capital expenditure across the health portfolio is \$777.7 million in 2019-20, including \$78.6 million as part of the Enhancing Regional Hospitals program and \$40.7 million as part of the Rural and Regional Infrastructure package. The Government's *Building Better Hospitals* commitment includes projects at three major south-east Queensland hospitals with a combined value of \$956.9 million.

The education portfolio's capital expenditure totals \$1.2 billion in 2019-20. This includes an additional \$272.8 million for new schools and classrooms, and air-conditioning. The 2019-20 Budget includes increased funding of \$532.6 million over seven years from 2018-19 to expand the Building Future Schools Fund to a total of \$1.3 billion to deliver world class learning environments for children, including new primary, secondary and special schools opening in 2020 and 2021.

Other highlights of the Government's capital works program include:

- ongoing construction of the transformative Cross River Rail project, which will ease congestion, improve network reliability and increase heavy rail accessibility to the Brisbane CBD for all South East Queensland regions. The State Government has allocated \$5.409 billion to the Cross River Rail, which will mean more trains, more often and turn-up-and-go transport for South East Queensland commuters
- major projects on the M1 Pacific Motorway, including the Varsity Lakes to Tugun and Eight Mile Plains to Daisy Hill projects, as well delivery of the Pacific Motorway/Gateway Motorway merge project, due for completion in 2020
- several key projects on the Bruce Highway, aimed at improving safety, flood resilience and capacity along its 1,700km length. These projects, being delivered in partnership with the Australian Government, will also continue to support construction jobs across regional Queensland
- several major infrastructure projects to support the Government's commitment to preventing offending and reoffending, and keeping young people out of courts and custody
- construction of the \$152 million Smithfield Bypass project to improve safety and traffic flow for road users around the northern beaches of Cairns
- a \$930.7 million investment in Townsville in 2019-20, contributing to the delivery of a number of significant productivity enhancing and job creating infrastructure projects in the region over the coming years, including:
  - \$225 million Townsville water security project to address long-term water security needs
  - \$193.5 million Stage 1 of the Townsville Port Expansion Project, to upgrade capacity of the Townsville Channel to allow access by larger vessels and boost trade at the Port of Townsville
  - completion of the \$290 million North Queensland Stadium, a 25,000-seat stadium in Townsville, in time for the 2020 National Rugby League Premiership Season
  - \$31.9 million Townsville (Pimlico) TAFE project to refurbish and expand training facilities
  - \$25 million to help industry rejuvenate the Great Barrier Reef Island resorts and offer world-class experiences to visitors

- \$7.3 million in 2019-20 out of a \$45.4 million total spend to rehabilitate and widen various sections of the Gregory Development Road for freight and productivity gains
- \$6.7 million in 2019-20 out of a \$44.4 million total spend to complete construction of the new North Shore State School.

### **Increasing frontline services**

To ensure all Queenslanders have access to world-class essential services, no matter where they live across the State, the Government continues to maintain record spending on delivery of health and education and training services.

The 2019-20 Budget allocates a record \$18.5 billion for the provision of health services.

The 2019-20 Budget allocates a record \$14.9 billion for education and training services.

An additional \$847.9 million has been provided over five years for both capital investments and service provision in the justice system to keep Queensland's communities safe.

The Budget also outlines the Government's substantial ongoing investment in keeping our communities safe, protecting our environment for the future, supporting our Aboriginal and Torres Strait Islander communities and lowering the cost of living.

### **Investing in ideas and fostering the next wave of innovation**

In the face of a changing global landscape, the Government is supporting businesses throughout the State to develop and adopt innovative approaches and seize new opportunities.

Advance Queensland, the Queensland Government's \$755 million flagship innovation program, continues to play a key role throughout the State in unlocking new opportunities to sustain and grow traditional industries while also helping to shape the development of emerging industries by fostering and supporting innovative ideas, research and technologies.

Highlights of the 2019-20 Budget that will foster and support adoption of the next wave of innovation by Queensland businesses and communities include:

- additional funding of \$19 million to establish an agenda for renewable hydrogen industry attraction and incentivisation to drive job creation, regional growth, and increased innovation and development, with Gladstone being a focus point for hydrogen development
- additional funding of \$8.6 million over two years is provided for FibreCo to potentially make high speed and low-cost internet available to regional Queensland, with substantial additional funding provided for a range of other key telecommunications infrastructure to enhance community connectivity across regional Queensland.

### **Skilling current and future generations of Queenslanders**

With the number of employed persons in Queensland projected to surpass 2.6 million by 2022, the Palaszczuk Government is focused on providing people with the education, training and skills to access employment opportunities, including the jobs of the future.

The Budget includes several initiatives to support pre-school education and learning, including increased funding of \$63.6 million over four years and \$18.7 million ongoing to continue the provision of Early Childhood Development Programs, as well as \$30.4 million over two years for the continued provision of universal access to kindergarten for children in the year before school.

The Government is providing increased funding of approximately \$1.4 billion over calendar years 2019 to 2023 for Queensland state schools, as part of the five-year school funding agreement reached with the Australian Government in December 2018.

Further, significant commitments are made in the 2019-20 Budget to improve Queensland's state schools, including \$532.6 million over seven years to expand the Building Future Schools Fund and \$251.3 million over three years for additional facilities at existing state schools experiencing enrolment growth.

The 2019-20 Budget also builds on the Government's substantial existing investment in training and skills, through innovative initiatives such as the Micro-Credentialing Pilot and a Higher Level Apprenticeship Pilot to provide modern and flexible pathways to address current, emerging and future skills needs. Further targeted support is provided to disadvantaged groups, including mature-age jobseekers, through the \$420 million Skilling Queenslanders for Work initiative to help them re-enter and stay in the workforce.

Since the Free TAFE initiative launched in August 2018, more than 6,000 students have started a new qualification, subject or module as part of their vocational education.

Further, the Government is continuing to deliver Free TAFE to help Year 12 graduates gain the training they need to develop skills in growing industry areas by covering the full cost of training in one of 160 high priority qualifications to ensure they get the skills to start their career.

### **Building the resilience of our communities impacted by natural disasters**

The Government remains committed to rebuilding regional communities impacted by the North Queensland floods and other recent natural disasters. Key elements of the Government's investment focused on improving existing infrastructure to improve the resilience of the State's communities (with partial funding provided by the Australian Government) include:

- a \$242 million disaster funding package following the North and Far North Queensland Monsoon Trough
- ongoing funding as part of the Queensland Government's \$110 million commitment for extraordinary recovery and reconstruction projects following Severe Tropical Cyclone Debbie
- supporting drought-affected communities through continuation of the Drought Assistance Package by providing up to \$74.6 million over four years.

### **Economic Outlook**

Queensland's economy has continued to grow solidly. However, a range of global, national and local factors are expected to see Queensland's Gross State Product (GSP) growth ease to 2¾% in 2018-19.

Global economic conditions have deteriorated substantially since early 2018, with a slowdown in China's domestic economy, escalation of global trade tensions and uncertainty related to Brexit resulting in a slowing of global growth in late 2018. These trends have intensified in early 2019.

Nationally, the weaker global outlook and sharper than expected slowdown in the housing sector have led to an easing in domestic economic growth. Recent ABS *National Accounts* data confirmed this trend, with national GDP growing by only 0.4% (seasonally adjusted) in March quarter 2019, while Queensland recorded the strongest growth in state final demand (SFD) of all the mainland states and territories at 0.5% (seasonally-adjusted) for the same period.

An ongoing moderation in dwelling investment and the associated flow-on to consumption spending, as well as a moderation in business investment, are all contributing to the easing of growth in 2018-19.

The easing growth in 2018-19 also reflects the impact of the flooding event in North Queensland, which impacted many local communities. Losses in economic output from the floods are estimated to be around  $\frac{1}{4}$  percentage point of GSP, spread across 2018-19 and 2019-20.

GSP growth is forecast to strengthen to 3% in 2019-20, underpinned by a pick-up in domestic activity as business investment strengthens. From 2020-21 onwards, economic growth is expected to remain solid, at around  $2\frac{3}{4}$ % per annum, consistent with its longer-term capacity and with a more balanced contribution from all major components across the economy.

As reflected in the fiscal revenue forecasts, the softer global and national outlook, a sharper than expected slowdown in the housing sector and the moderation in employment growth are expected to have impacts on the growth in key Queensland government revenues, including GST, transfer duty and payroll tax.

The strong GSP growth in 2017-18 was accompanied by exceptional employment growth of 4.1%, the strongest growth in more than a decade and the largest annual rise (97,700 persons) in the State's history. However, in line with more subdued domestic activity, employment is still expected to grow, but at more moderate rates of  $1\frac{1}{2}$ % in 2018-19 and  $1\frac{1}{4}$ % in 2019-20.

As employment growth eases, the participation rate is expected to decline, and the unemployment rate is forecast to stabilise at around 6% in both years.

Beyond 2019-20, as domestic activity strengthens, jobs growth is expected to pick up to around  $1\frac{3}{4}$ %, while the unemployment rate is expected to edge lower to  $5\frac{3}{4}$ % by the end of the projection period.

**Overview Table 1      Queensland economic forecasts/projections<sup>1</sup>**

	Actual	Est. Act.	Forecasts		Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
<b>Gross state product<sup>2</sup></b>	<b>3.5</b>	<b>2¾</b>	<b>3</b>	<b>2¾</b>	<b>2¾</b>	<b>2¾</b>
Nominal gross state product	5.7	6	3¼	3½	4½	4¾
Employment <sup>3</sup>	4.1	1½	1¼	1½	1¾	1¾
Unemployment rate <sup>4</sup>	6.0	6	6	6	6	5¾
Inflation <sup>3</sup>	1.7	1¾	2	2¼	2½	2½
Wage Price Index <sup>3</sup>	2.2	2¼	2¼	2½	2½	2¾
Population <sup>3</sup>	1.7	1¾	1¾	1¾	1¾	1¾
Notes:						
1. Unless otherwise stated, all figures are annual percentage changes.						
2. Chain volume measure (CVM), 2016-17 reference year.						
3. Annual percentage change, year-average.						
4. Per cent, year-average.						
<i>Sources: ABS 3101.0, 6202.0, 6345.0, 6401.0 and Queensland Treasury.</i>						

### Fiscal Outlook

The 2019-20 Budget demonstrates the Government's commitment to supporting job creation, investing in the regions and delivering the infrastructure and frontline services Queensland needs, in a financially sustainable manner.

Net operating surpluses are projected in each year of the forward estimates. This is being achieved despite a reduction in Queensland's share of GST revenue and downward revisions to transfer duty revenue. Across the forward estimates, the net operating balance is expected to improve as revenue growth outpaces expense growth with the gap widening each year from 2020-21 onwards.

A \$49.5 billion capital program over four years will deliver infrastructure that supports economic growth across Queensland, enhances frontline services and provides employment opportunities. This level of investment will be partly funded through borrowings.

Even so, General Government borrowings as a share of revenue are expected to remain substantially below the peak level reached in 2012-13. The Government will continue to fund infrastructure investment while managing debt. This is being achieved while retaining strategic assets, such as electricity and water businesses, in public ownership.

In the Non-financial Public sector, which also includes the government-owned corporations, borrowings are expected to peak as a share of revenue in 2021-22, before declining in 2022-23.

## Budget Strategy and Outlook 2019-20

The 2019-20 Budget incorporates adoption of a new accounting standard, which requires operating leases, such as office accommodation leases, to be recognised on the balance sheet as liabilities, despite there being no change in the State's financial commitments. This new accounting standard has added \$2.2 billion to lease liabilities, and therefore net debt, in the General Government Sector in 2019-20. For the Non-financial Public sector, the new accounting standard has increased liabilities and net debt, by \$2.6 billion on adoption.

**Overview Table 2      Key fiscal aggregates<sup>1</sup>**

	2017-18 Actual <sup>2</sup> \$ million	2018-19 MYFER \$ million	2018-19 Est. Act. \$ million	2019-20 Budget \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million	2022-23 Projection \$ million
<b>General Government Sector</b>							
Revenue	58,087	59,002	60,068	60,387	61,729	63,583	65,540
Expenses	56,335	58,478	59,226	60,198	61,416	63,101	64,753
<b>Net operating balance</b>	<b>1,753</b>	<b>524</b>	<b>841</b>	<b>189</b>	<b>313</b>	<b>483</b>	<b>787</b>
PNFA <sup>3</sup>	5,127	5,981	6,060	6,727	7,125	7,963	6,179
Fiscal balance	(586)	(2,632)	(2,677)	(3,527)	(3,667)	(4,280)	(1,731)
<b>Borrowing with QTC<sup>4</sup></b>	<b>29,256</b>	<b>30,610</b>	<b>29,933</b>	<b>32,781</b>	<b>35,218</b>	<b>40,174</b>	<b>42,589</b>
Leases and similar arrangements <sup>5</sup>	2,152	2,557	2,623	5,824	7,071	6,943	6,966
Securities and Derivatives	122	75	122	122	122	122	122
<b>Non-financial Public Sector</b>							
<b>Borrowing with QTC</b>	<b>66,964</b>	<b>68,774</b>	<b>68,141</b>	<b>71,954</b>	<b>75,413</b>	<b>80,645</b>	<b>82,972</b>
Leases and similar arrangements	2,152	2,557	2,623	6,217	7,430	7,266	7,254
Securities and Derivatives	405	278	671	544	502	492	492
Notes:							
1. Numbers may not add due to rounding. Bracketed numbers represent negative amounts.							
2. Reflects published actuals.							
3. PNFA: Purchases of non-financial assets.							
4. Queensland Treasury Corporation.							
5. This includes adoption of new accounting standard AASB 16 Leases.							