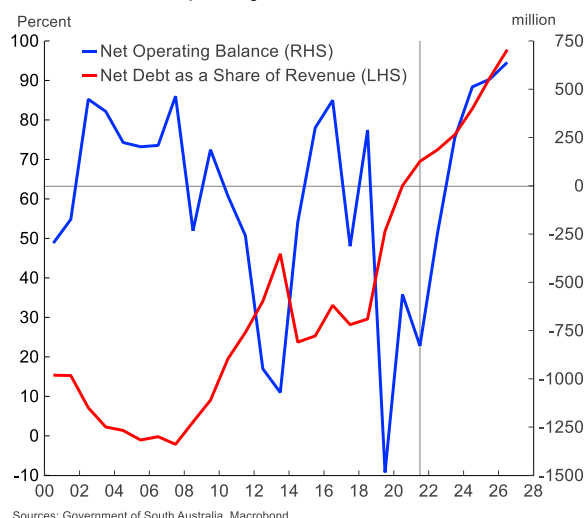


2023-24 South Australia Budget State Governments Continue To Spend

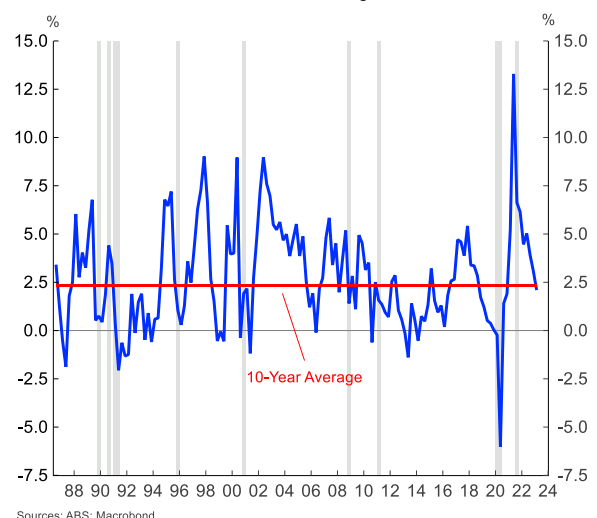
- The 2023-24 South Australia State Budget showed a deterioration in the net operating balance (NOB) of \$707 million across the four years to 2025-26.
- The NOB is expected to be a deficit of around \$250 million in 2022-23, compared with the previously forecast surplus of about \$200 million. In future years, the net operating balance is expected to be back in surplus, albeit smaller than previously anticipated.
- Importantly, the Government is expecting a windfall of around \$2.2 billion over the four years to 2025-25, mainly due to higher Commonwealth payments including GST payments and other grants.
- This windfall was insufficient to cover the additional \$2.9 billion in new measures over the four years to 2023-24. In 2023-24 alone, the Government expects to spend close to an additional \$1 billion (or 0.8% of 2021-22 Gross State Product).
- New measures announced include electricity rebates for certain households and small businesses along with other cost-of-living support measures, support for first-home buyers and a boost to investment in health.
- South Australia’s Budget continues the trend we have seen recently where state governments are looking to use windfalls to provide cost-of-living support.
- As we have been saying, additional spending by governments makes the Reserve Bank’s (RBA) job harder. This is consistent with our updated view that the RBA will need to increase the cash rate to at least 4.60% to help ensure inflation returns to its target.

South Australia 2023-24 Budget
Net operating balance and Net debt



Sources: Government of South Australia, Macrobond

South Australia State Final Demand
Annual % Change



Sources: ABS, Macrobond

Key Budget Measures

The cost-of-living package

The centrepiece of the Government's cost of living package is around \$250 million in energy rebates for certain households and small businesses. This includes:

- Rebates of up to \$500 on 2023-24 electricity bills for eligible households, including existing energy concession recipients plus Family Tax Benefit and Carer Allowance recipients. Around 420k households expected to benefit.
- Rebate of up to \$650 on 2023-24 electricity bills for around 86k small businesses.

Other cost-of-living support includes indexation of concessions, such as medical, heating and cooling concessions; increased carer payments; and cheaper hospital car parking and free public transport for public hospital workers.

Support for first-home buyers

The Government announced new as well as expanded support for first-home buyers. Key measures include:

- Nil stamp duty for new dwellings valued up to \$650k purchased by first-home buyers. The concession is available at less concessional rates for new properties valued up to \$700k.
- HomeStart will enable eligible first-home buyers to build a new home apply for a loan with as little as a 2% deposit.
- A fast-tracked approval process for eligible first-home buyers to expedite the planning approval process.

Supporting housing supply and renters' rights

Housing measures to support the supply of housing include:

- Increased land release with 25k new blocks across Adelaide.
- Increased public housing by investing in 564 new homes and halting the sale of 580 public housing properties.
- Investing in 1,200 more social and affordable homes, including 700 affordable homes as part of the Housing Accord with the Federal Government.
- Increasing the threshold for six-week bonds from \$250 to \$800 per week; banning rent bidding where prospective tenants are encouraged to offer above the advertised price; and expanding eligibility for the private rental assistance program.

Small business support

The Government has committed an additional \$6.5 million over four years for South Australia's small business strategy. This will be used for programs/grants to increase the skills, capability and capacity of small business owners and support them to create jobs and build the economy.

Investment in Health

The Government announced \$2.3 billion in additional spending over five years from 2022-23. This includes funding for:

- Health infrastructure including the new women's and children's hospital.
- Staffing in major metropolitan hospitals on the weekends.

- Creation of the State Health Control Centre that will provide patient flow management and coordination of critical health resources.

Infrastructure and capital spending

The Government has maintained its \$21 billion infrastructure pipeline, which includes:

- \$9.9 billion for roads and public transport.
- \$2.9 billion for health infrastructure.
- \$2.5 billion for water infrastructure.

The fiscal outlook – net operating balance and net debt

The 2023-24 South Australia State Budget showed a deterioration in the net operating balance (NOB) of \$707 million across the four years to 2025-26 when compared to the mid-year budget update (published on 16 December 2022).

- The NOB is expected to be a deficit of around \$250 million in 2022-23, compared with the previously forecast surplus of about \$200 million.
- In future years, the net operating balance is expected to be back in surplus, albeit smaller than previously anticipated.

Net debt as a share of state government revenue or Gross State Product (GSP) is expected to reach a record high by 2026-27 – close to 100% of revenue and 17% of GSP.

- This is a key metric that is closely monitored by the rating agencies.

The economic outlook

The South Australian economy grew by 5.1% in 2021-22, driven by household and public consumption, as well as private new business investment.

- The economy is expected to slow sharply and grow by 1% in 2023-34 on the back moderating household spending and declines in investment.
- This will see unemployment increase and employment growth slow. Adelaide's inflation rate expected to be within the RBA's 2-3% target band in 2025-26.

Industries contributing to growth include agriculture, forestry and fishing, construction, professional and scientific services, and manufacturing.

- South Australia has recorded a third consecutive year of very strong winter grain crop production, culminating in an estimated record crop for 2022-23.
- The Australian Bureau of Agricultural and Resource Economics and Sciences estimates South Australia's winter crop production to be 12.6 million tonnes in 2022-23. This is a record high and 50% higher than 2021-22.

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