

South Australian State Budget 2007-08

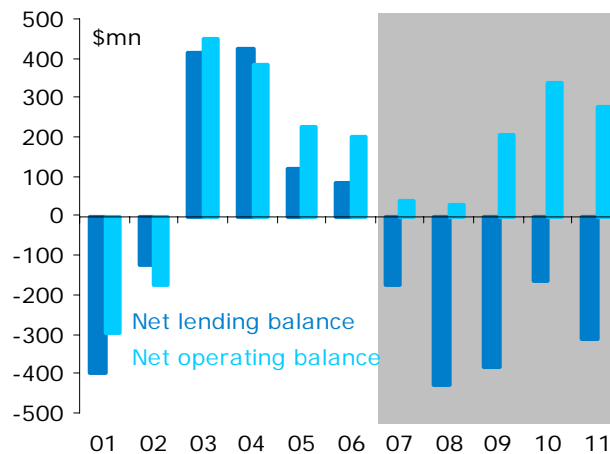
Spending season

07 June 2007

South Australian Treasurer Kevin Foley's 2007-08 Budget follows the trend of other State Budgets in using operating surpluses and debt to fund significant investment. In this Budget, the spending will primarily benefit the State's health sector, with transport infrastructure also receiving a large share of the funds.

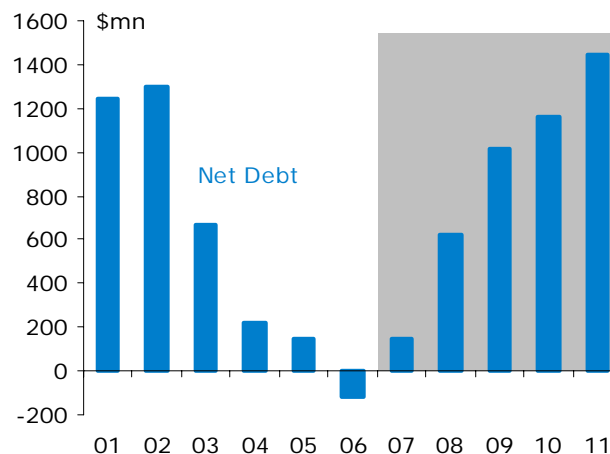
As a result of the Budget's significant spending, the net operating surplus is estimated to fall to \$38mn in 2006-07 and \$30mn in 2007-08. While the net operating balance remains in surplus, the net lending balance will be in deficit throughout the forward estimates period.

Net lending deficits are forecast



The net lending deficit indicates that operating and investment expenditure has been funded from sources other than revenues, resulting in increased liabilities. In particular, general government net debt will also rise to over \$1.4bn by June 2011 (1.8% of GDP). Notwithstanding the increase, net debt remains moderate, and significantly lower than the levels observed in the 90s.

Net debt will increase, but remain moderate



Author:

Wain Yuen
Economist, Industry
+61 3 9273 6295
Wain.Yuen@anz.com

Our Vision:

For Economics@ANZ to be the most respected, sought-after and commercially valued source of economics research and information on Australia, New Zealand, the Pacific and Asia.

Details of Key Budget Measures

The 2007-08 Budget contains net additional **spending initiatives** totalling \$1498mn over the next four years.¹

- \$715 million over four years in **health** funding to progress mental health reform and support the delivery of current health services. Part of this funding will also support the establishment of a new \$1.7bn **Marjorie Jackson-Nelson Hospital**, to be opened by 2016.
- \$542 million for **transport** initiatives including relocating the Adelaide rail yards, repairing the Adelaide to Noarlunga and Belair rail lines and partial funding of the Northern Expressway.
- \$172 million for **community services**, and in particular for disability services and children in foster care.
- \$114 million of new commitments to **law and order**, including an expansion of drug driver testing and additional prison beds.

Notably absent from the Budget's priorities is new funding for **education**.

Businesses will benefit from the Budget, with **payroll tax** being reduced from 5.5% to 5.25% from 1 July 2007 and further reduced to 5.0% from 1 July 2008. This is estimated to save employers \$337mn over four years.

Households will face higher **government fees** and charges across a range of services. Public transport tickets will rise by more than 7%, car registrations will increase by around 4.5% and water charges will rise by 6.4%.

Economic Forecasts

South Australia's **gross state product** is expected to increase by 1% in 2006-07, lower than the national average of 2.5%. With agriculture representing a larger share of South Australia's economy than nationally, the drought has had a particularly acute effect on the State's economy. In 2007-08, gross state product is forecast to rebound strongly, partly reflecting an assumed recovery from the drought.

Employment growth is forecast to be lower than the national average in 2006-07 and 2007-08, with some job losses expected in the State's manufacturing industries. **Inflationary** pressures are expected to remain around the national average.

Figure 1: South Australian economic forecasts

	2005-06 Actual	2006-07 Estimate	2007-08 Forecast	2008-09 Forecast
Real gross state product	2.2	1	4	3
Employment	1.7	1.5	1	1.25
Consumer price index	3.2	2.5	2.5	2.5

Source: Australian Bureau of Statistics; SA Department of Treasury and Finance

¹The Government also expects to achieve efficiency savings.

ANZ Research

Economics@ANZ				
Saul Eslake Chief Economist +61 3 9273 6251 Saul.Eslake@anz.com	Fiona Allen Business Manager +61 3 9273 6224 Fiona.Allen@anz.com			
Tony Pearson Head of Australian Economics +61 3 9273 5083 Tony.Pearson@anz.com	Mark Rodrigues Senior Economist, Industry +61 3 9273 6286 Mark.Rodrigues@anz.com	Wain Yuen Economist, Industry +61 3 9273 6295 Wain.Yuen@anz.com	Riki Polygenis Senior Economist (Acting), Australia +61 3 9273 4060 Riki.Polygenis@anz.com	Amber Rabinov Economist, Australia +61 3 9273 4853 Amber.Rabinov@anz.com
Amy Auster Head of International Economics +61 3 9273 5417 Amy.Auster@anz.com	Katie Dean Senior Economist, International +61 3 9273 5466 Katie.Dean@anz.com	Jasmine Robinson Senior Economist, International +61 3 9273 6289 Jasmine.Robinson@anz.com	Dr. Alex Joiner Economist, International +61 3 9273 6123 Alex.Joiner@anz.com	
Paul Braddick Head of Financial System Analysis +61 3 9273 5987 Paul.Braddick@anz.com	Ange Montalti Senior Economist, Financial System Analysis +61 3 9273 6288 Ange.Montalti@anz.com			
Warren Hogan Head of Markets Research +61 2 9227 1562 Warren.Hogan@anz.com	Cherelle Murphy Senior Economist, Markets +61 3 9273 1995 Cherelle.Murphy@anz.com			
ANZ Investment Bank				
Warren Hogan Head of Markets Research +61 2 9227 1562 Warren.Hogan@anz.com	Sally Auld Senior Interest Rate Strategist +61 2 9227 1809 Sally.Auld@anz.com	Tony Morriss Senior Currency Strategist +61 2 9226 6757 Anthony.Morriss@anz.com	Cherelle Murphy Senior Economist, Markets +61 3 9273 1995 Cherelle.Murphy@anz.com	
David Croy Strategist +44 20 7378 2070 croyd@anz.com	Patricia Gacis Fixed Income Analyst +61 2 9227 1272 Patricia.Gacis@anz.com			
Sarah Percy-Dove Head of Credit Research +61 2 9227 1142 Sarah.Percy-Dove@anz.com	John Manning Senior Credit Analyst +61 2 9227 1493 John.Manning@anz.com	Bradley Bugg Senior Credit Analyst +61 2 9227 1693 Bradley.Bugg@anz.com		
Research & Information Services				
Mary Yaxley Head of Research & Information Services +61 3 9273 6265 Mary.Yaxley@anz.com	Marilla Rough Senior Information Officer +61 3 9273 6263 Marilla.Rough@anz.com	Manesha Jayasuriya Information Officer +61 3 9273 4121 Manesha.Jayasuriya@anz.com		
ANZ New Zealand				
Cameron Bagrie Chief Economist +64 4 802 2212 bagriec@anz.com	Khoon Goh Senior Economist +64 4 802 2357 gohk@anz.com	Philip Borkin Economist +64 4 802 2199 borkinp@anz.com		
Sean Comber Economist +64 4 802 2286 combers@anz.com	Steve Edwards Economist +64 4 802 2217 edwards1@anz.com	Kevin Wilson Rural Economist +64 4 802 2361 Kevin.Wilson@nbnz.co.nz		

Important Notice

Australia and New Zealand Banking Group Limited is represented in:

AUSTRALIA by:

Australia and New Zealand Banking Group Limited ABN 11 005 357 522

10th Floor 100 Queen Street, Melbourne 3000, Australia

Telephone +61 3 9273 6224 Fax +61 3 9273 5711

UNITED KINGDOM by:

Australia and New Zealand Banking Group Limited

ABN 11 005 357 522

40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom

Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA by:

ANZ Securities, Inc. (Member of NASD and SIPC)

6th Floor 1177 Avenue of the Americas

New York, NY 10036, United States of America

Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND by:

ANZ National Bank Limited

Level 7, 1-9 Victoria Street, Wellington, New Zealand

Telephone +64 4 802 2000

In Australia and the UK, ANZ Investment Bank is a business name of Australia and New Zealand Banking Group Limited, ABN 11 005 357 522 ("ANZBGL") which is incorporated with limited liability in Australia. ANZBGL holds an Australian Financial Services licence no. 234527 and is authorised in the UK by the Financial Services Authority ("FSA"). In New Zealand, ANZ Investment Bank is a business name of ANZ National Bank Limited WN / 035976 ("ANZ NZ").

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of ANZBGL), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This document is being distributed in the United Kingdom by ANZBGL for the information of its market counterparties and intermediate customers only. It is not intended for and must not be distributed to private customers. In the UK, ANZBGL is regulated by the FSA. Nothing here excludes or restricts any duty or liability to a customer which ANZBGL may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBGL, ANZ NZ, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZBGL, ANZ NZ, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will directly or indirectly relate to specific recommendations or views expressed about any securities or issuers in this document. ANZBGL, ANZ NZ, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.