

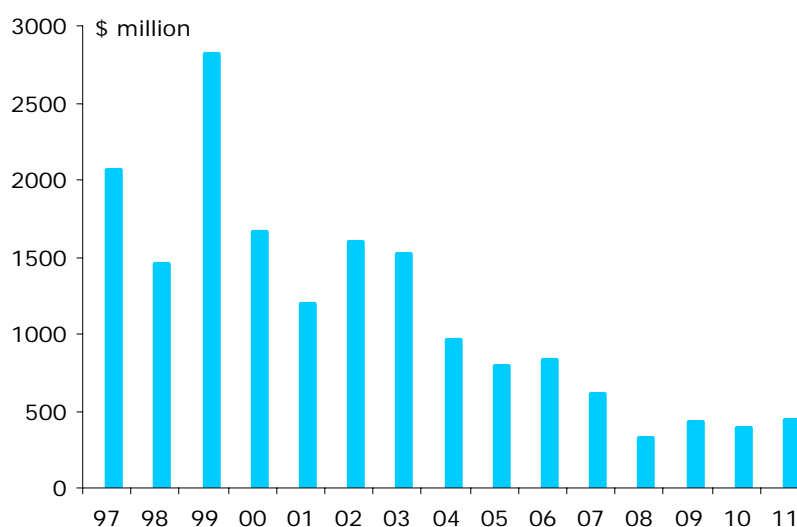
2007-08 Victorian State Budget

Delivering on election commitments and business-friendly measures at the cost of increased debt

02 May 2007

Victorian Treasurer John Brumby's 2007-08 Budget sets out a range of spending initiatives and tax cuts to deliver on the Bracks Government's election promises focusing on "growth, fairness and the future". At the same time, the Budget will preserve a net operating surplus of \$324 million in 2007-08 and an average of \$424 million over the following three years.

Net operating balance



Author:

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

New funding for election commitments

The Budget provides significant additional funding for **education**. A \$555 million school rebuilding program will, among other things, upgrade over 100 schools and support the opening of new schools. Education also receives \$349 million over the next 5 years to support teachers and students. Significant funding is also provided for **health**, with a further \$692 million over 5 years allocated to hospital services. And the Budget commits an additional \$510 million to boost the public and social **housing** stock.

Additional funding is provided for **transport** and **roads**. Among other initiatives, \$362 million will support new trains and \$94 million will see fares reduced by an average of 20% for country train travellers. A further \$318 million is allocated to the **justice** system, while \$291 million is allocated to **climate change** and **water** saving initiatives.

Revenue measures also feature in the Budget. Businesses will benefit from a further 10% reduction in **WorkCover** premiums, worth \$668 million over the next 4 years. As a result, premiums in Victoria will be the second lowest in Australia. The Budget also provides **land tax** cuts worth \$508 million over the next 4 years, with the tax-free threshold increasing from \$200,000 to \$225,000 and the top rate cut from 3% to 2.5%. Meanwhile, **motor vehicle duties** will be reduced to 2.5% on passenger vehicles valued between \$35,000 and \$57,009.

Higher debt

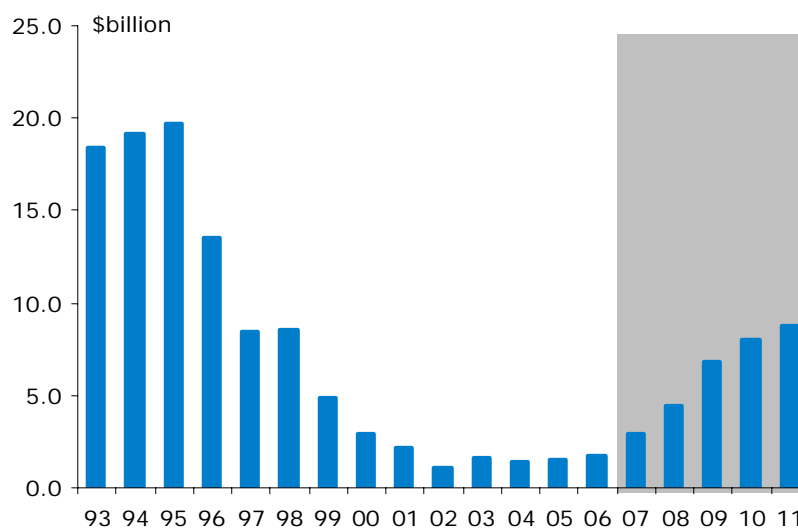
As a result of the Budget's record infrastructure spending, general government net debt will increase from \$3 billion now (1.2% of gross

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.

state product) to \$8.8 billion in June 2011 (2.9% of GSP). Notwithstanding the increase, net debt will remain substantially below the levels seen in the mid-1990s.

General government net debt



Importantly, Victoria's AAA credit rating is not threatened by the higher debt according to a Standard and Poor's statement.

A solid outlook for Victoria's economy

Victoria's economy is expected to grow by 2.75% in 2006-07 and to accelerate to 3.25% in 2007-08. This would see Victoria's gross state product per capita overtake NSW for the first time in over 20 years.

The forecast for 2007-08 reflects an expected rebound in **dwelling investment** and a recovery in the **rural sector**. These expectations appear reasonable with demographic pressures supporting increased dwelling investment and a positive rainfall outlook supporting some recovery in the rural sector.

Overall, the Department of Treasury and Finance expects Victoria's economy to grow slightly faster than the national average (of 2.5%) in 2006-07 and substantially faster than other non-resource states. Meanwhile **employment** is forecast to increase by 2.25% and the **consumer price index** by 3%, both in line with the national average.

Figure 1: Victorian economic forecasts

	2005-06 Actual	2006-07 Forecast	2007-08 Forecast	2008-09 Forecast
Real gross state product	2.7	2.75	3.25	3.25
Employment	1.7	2.25	1.25	1.25
Unemployment rate	5.3	5.00	5.00	5.00
Consumer price index	3.1	3.00	2.50	2.50
Wage price index	3.8	3.50	3.50	3.50
Population	1.4	1.20	1.20	1.20

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

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

Julie Toth

Senior Economist,
Industry
+61 3 9273 6252
Julie.Toth@anz.com

Mark Rodrigues

Senior Economist, Australia
+61 3 9273 6286
Mark.Rodrigues@anz.com

Riki Polygenis

Economist,
Australia
+61 3 9273 4060
Riki.Polygenis@anz.com

Amber Rabinov

Economist,
Australia
+61 3 9273 4853
Amber.Rabinov@anz.com

Wain Yuen

Economist,
Australia
+61 3 9273 6295
Wain.Yuen@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

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

David Croy

Strategist
+44 20 7378 2070
croyd@anz.com

Cherelle Murphy

Economist, Markets
+61 3 9273 1995
Cherelle.Murphy@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@nbz.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

Minerva House, PO Box 7, Montague Close, London, SE1 9DH, United Kingdom

Telephone +44 20 7378 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.