

Department of **Treasury & Finance**

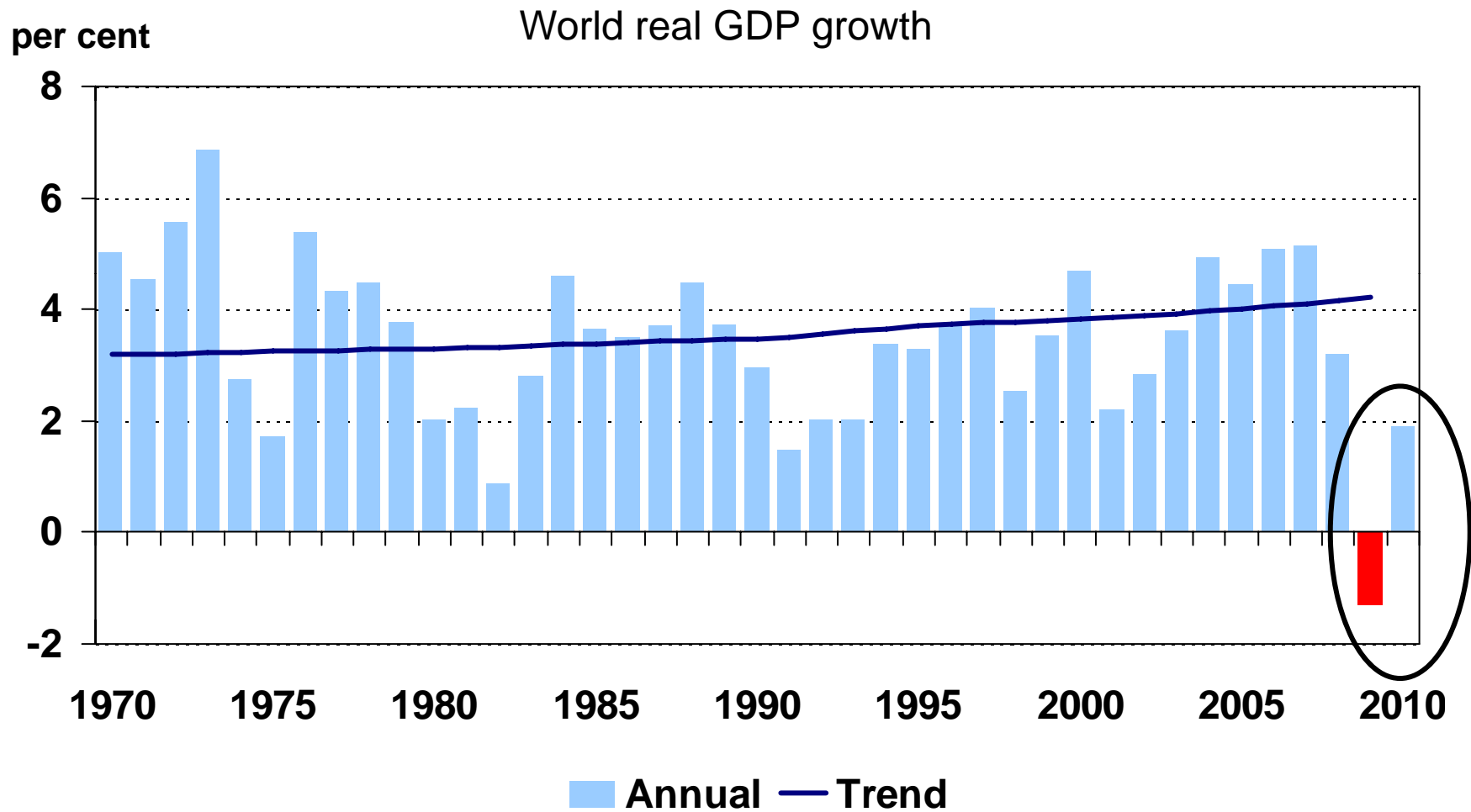
Urban Development Institute of Australia

John Lenders MP
Treasurer

Friday, 1 May 2009

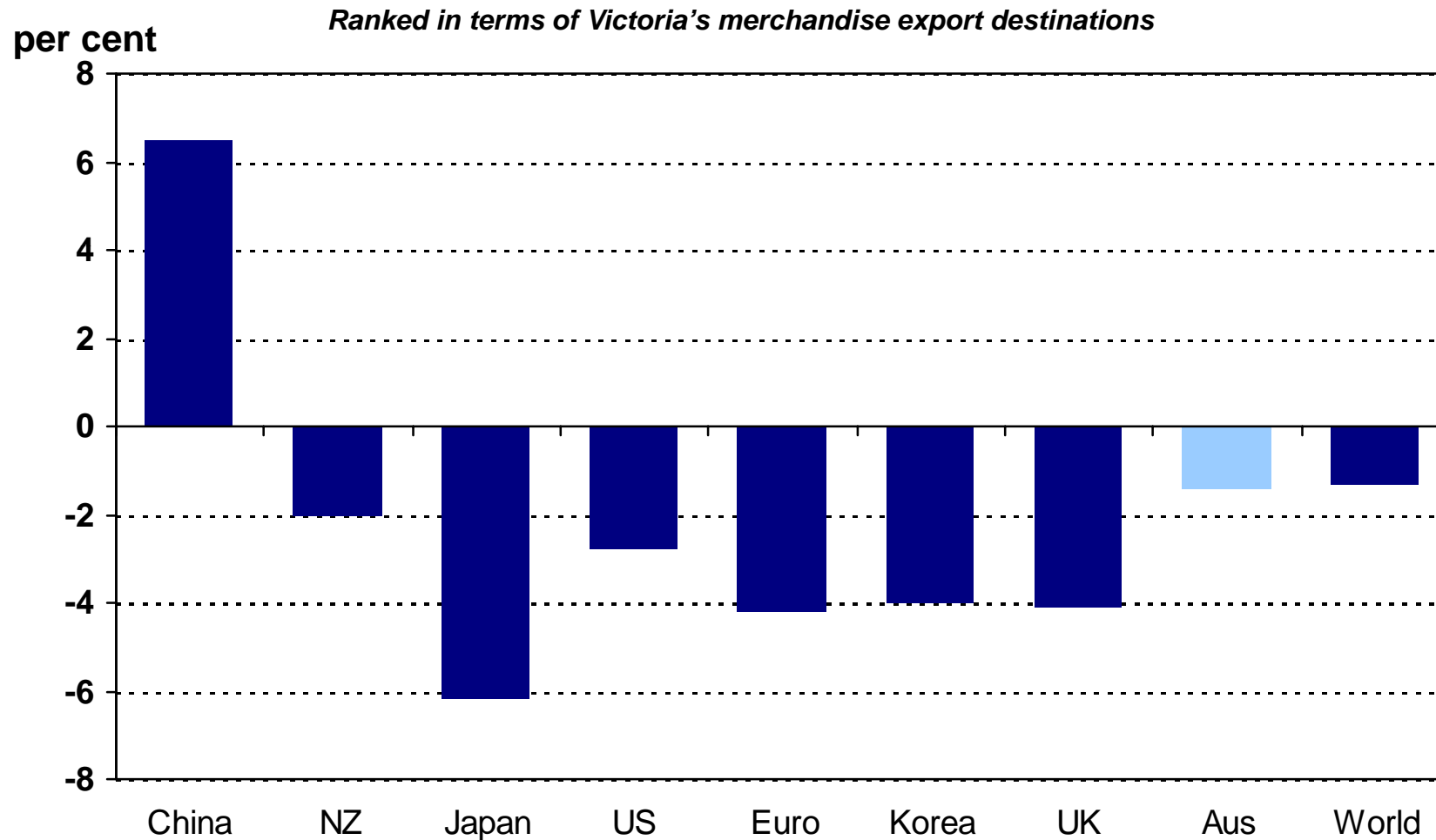


World growth slowest since WW2



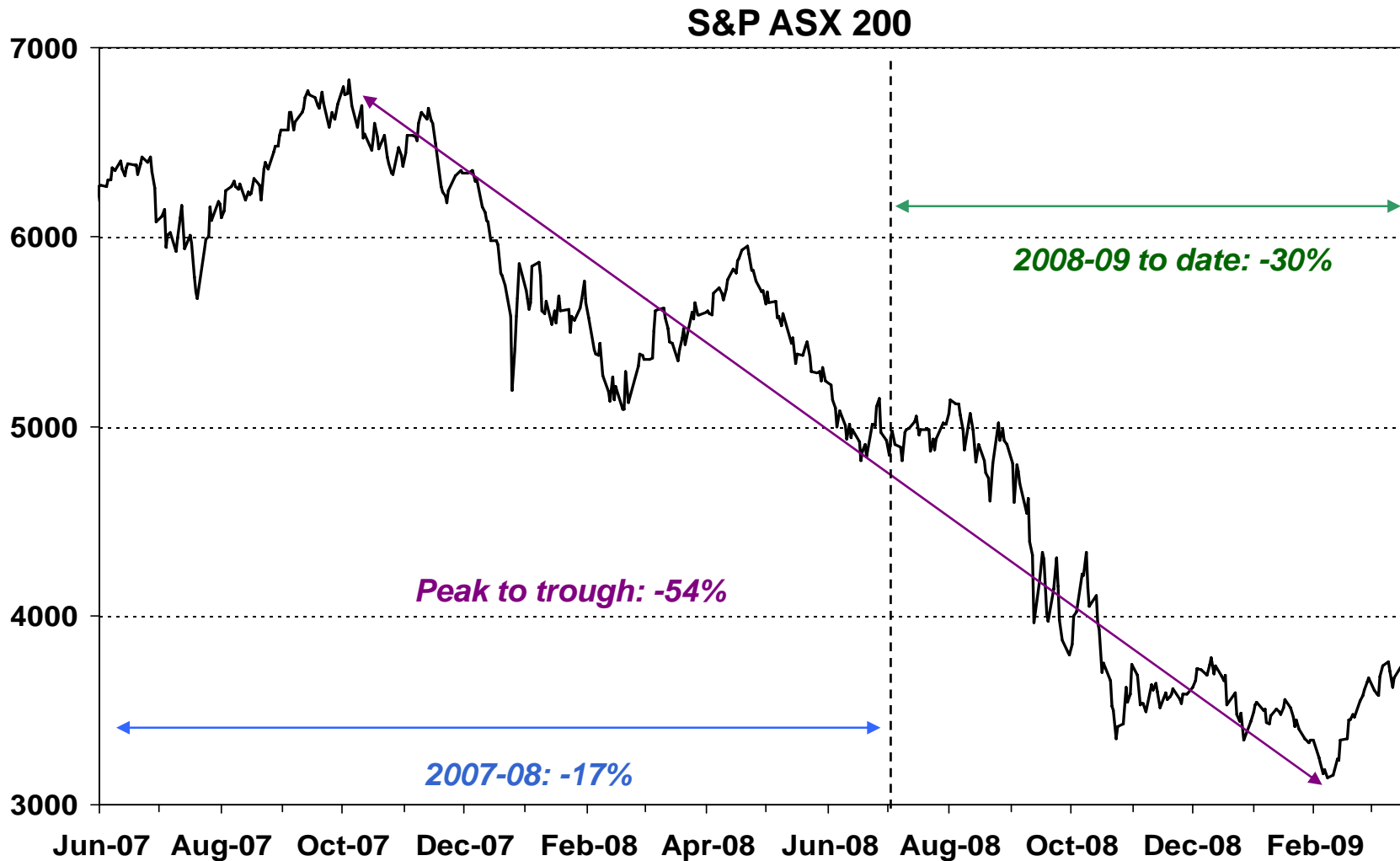
Source: International Monetary Fund, April 2009

IMF growth forecasts for 2009



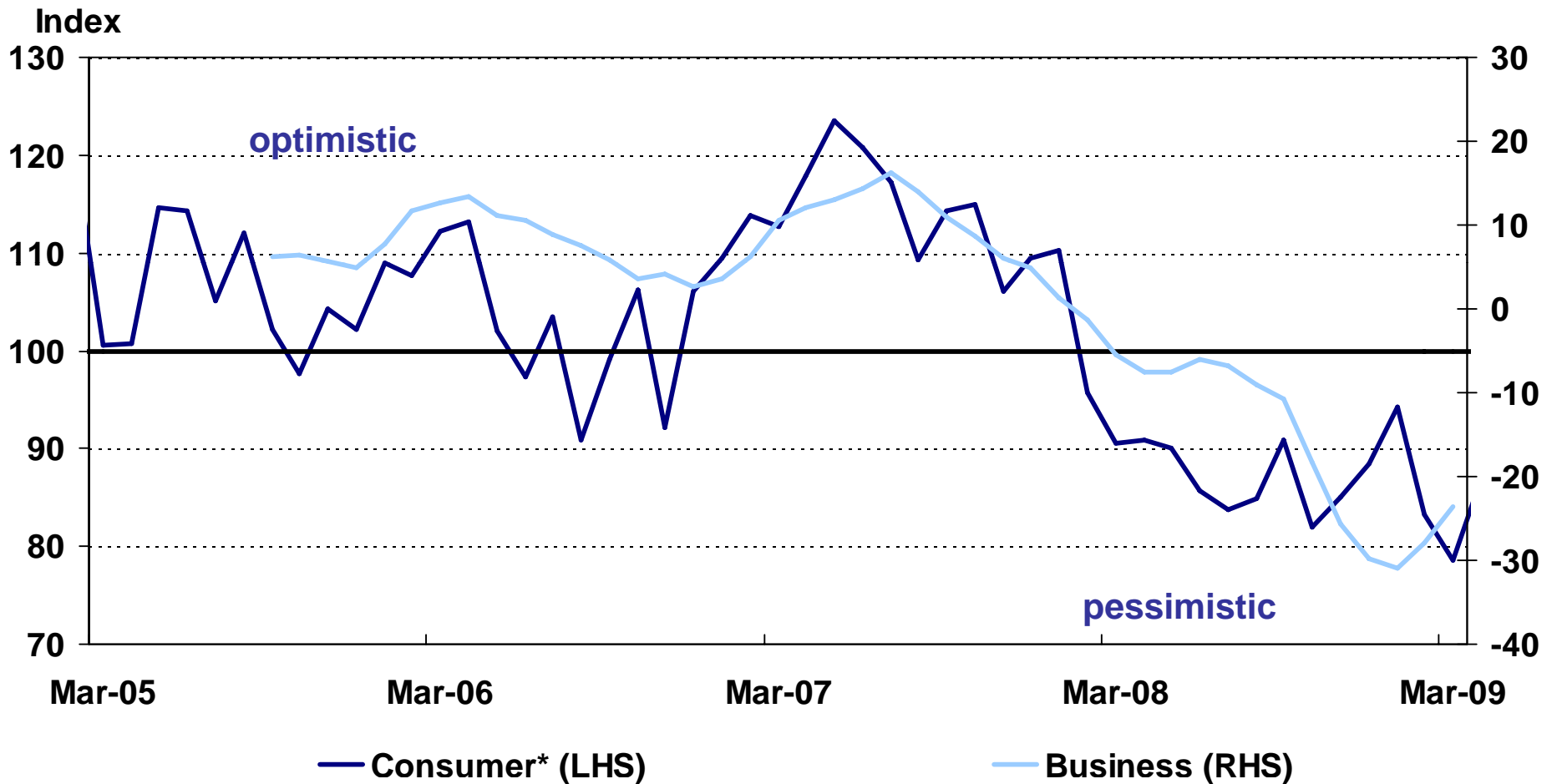
Source: International Monetary Fund, April 2009

Australian stock market collapse



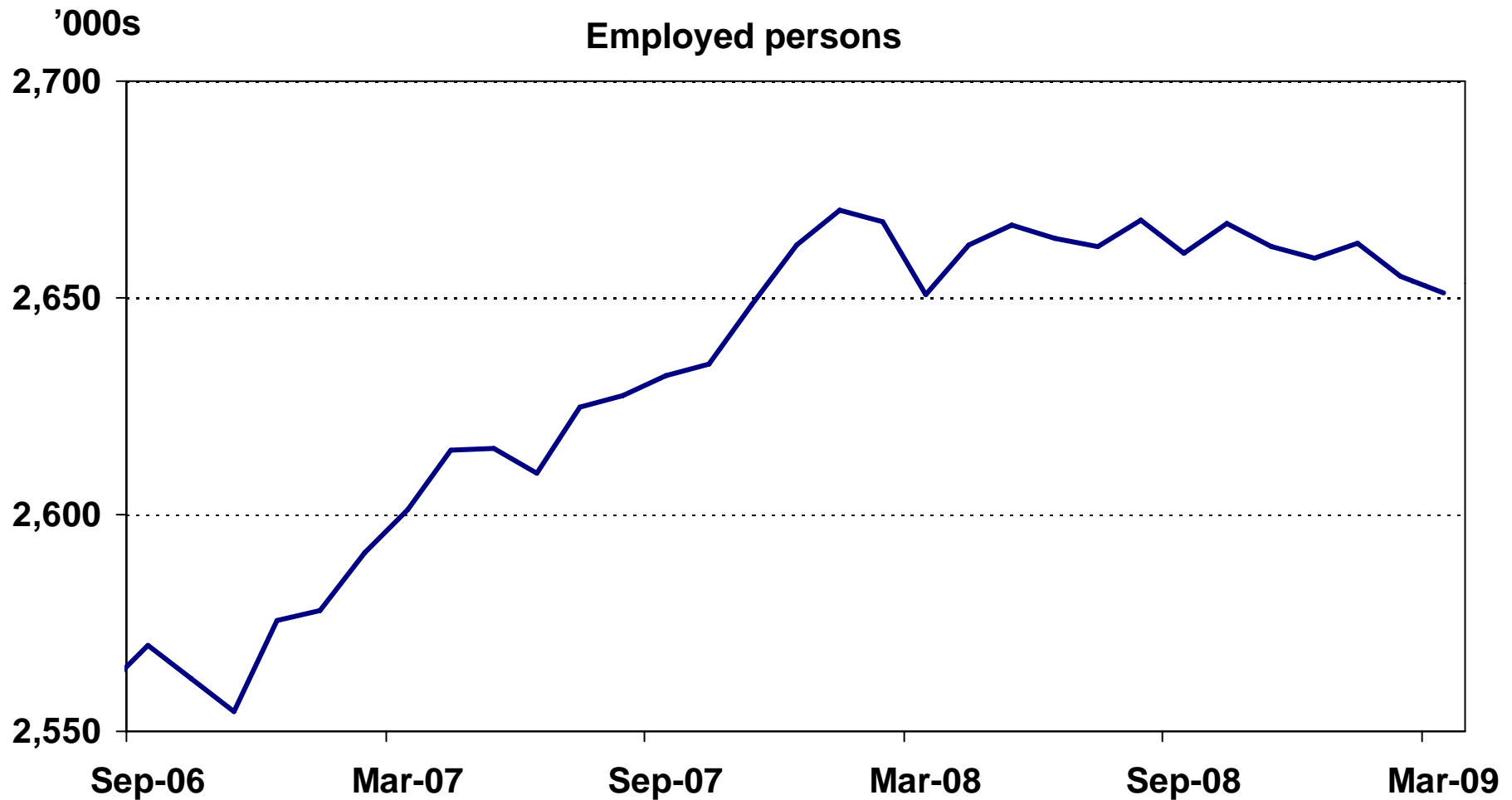
Source: Australian Securities Exchange

Lower business and consumer confidence



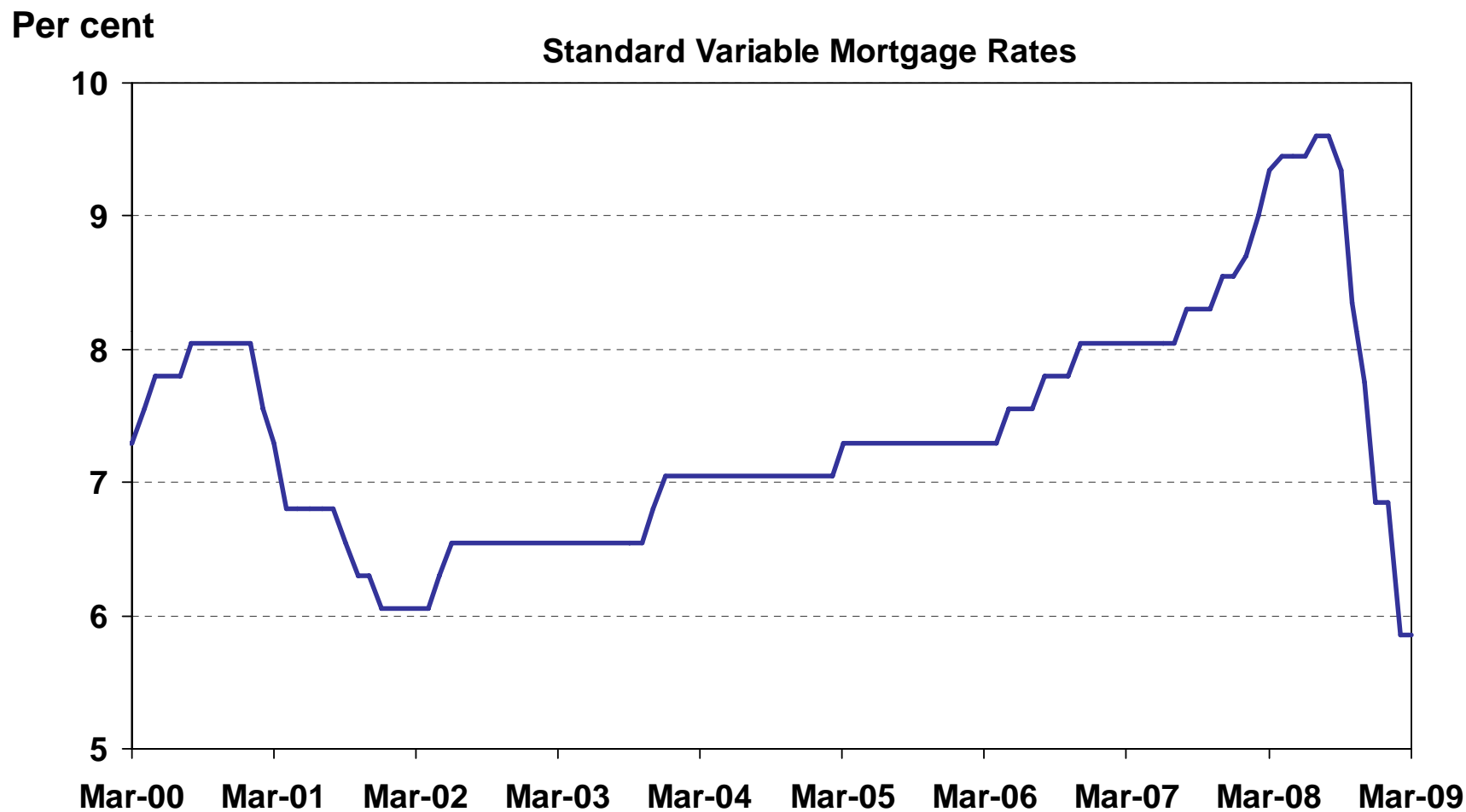
Sources: Westpac-Melbourne Institute and National Australia Bank
* quarter average

Slowing Victorian employment growth



Source: Australian Bureau of Statistics

Monetary policy response – 425 bps cut since Sept 08

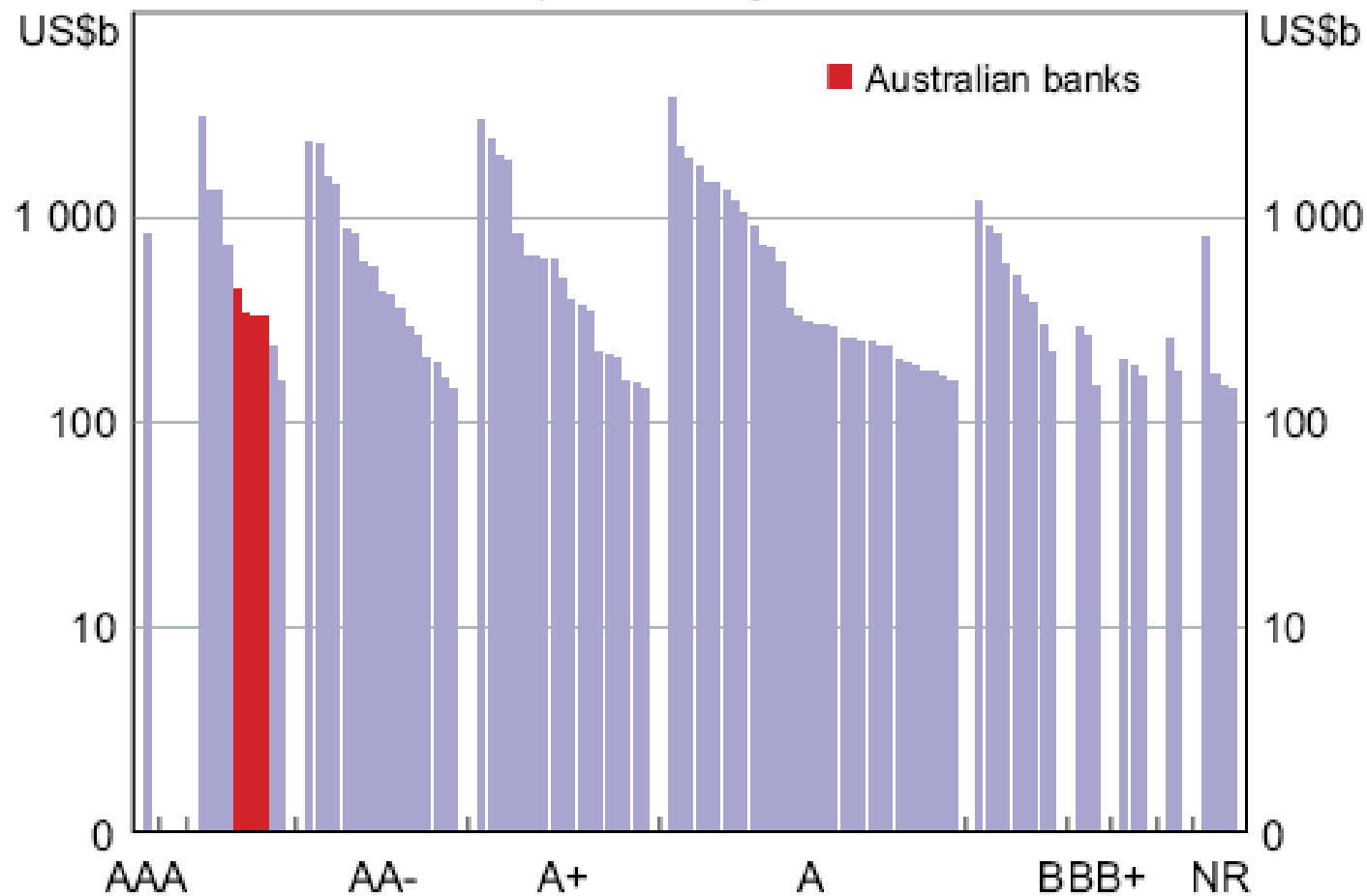


Source: Reserve Bank of Australia

Australian banks have strong credit ratings

Credit Ratings of the Largest 100 Banking Groups

By assets, log scale



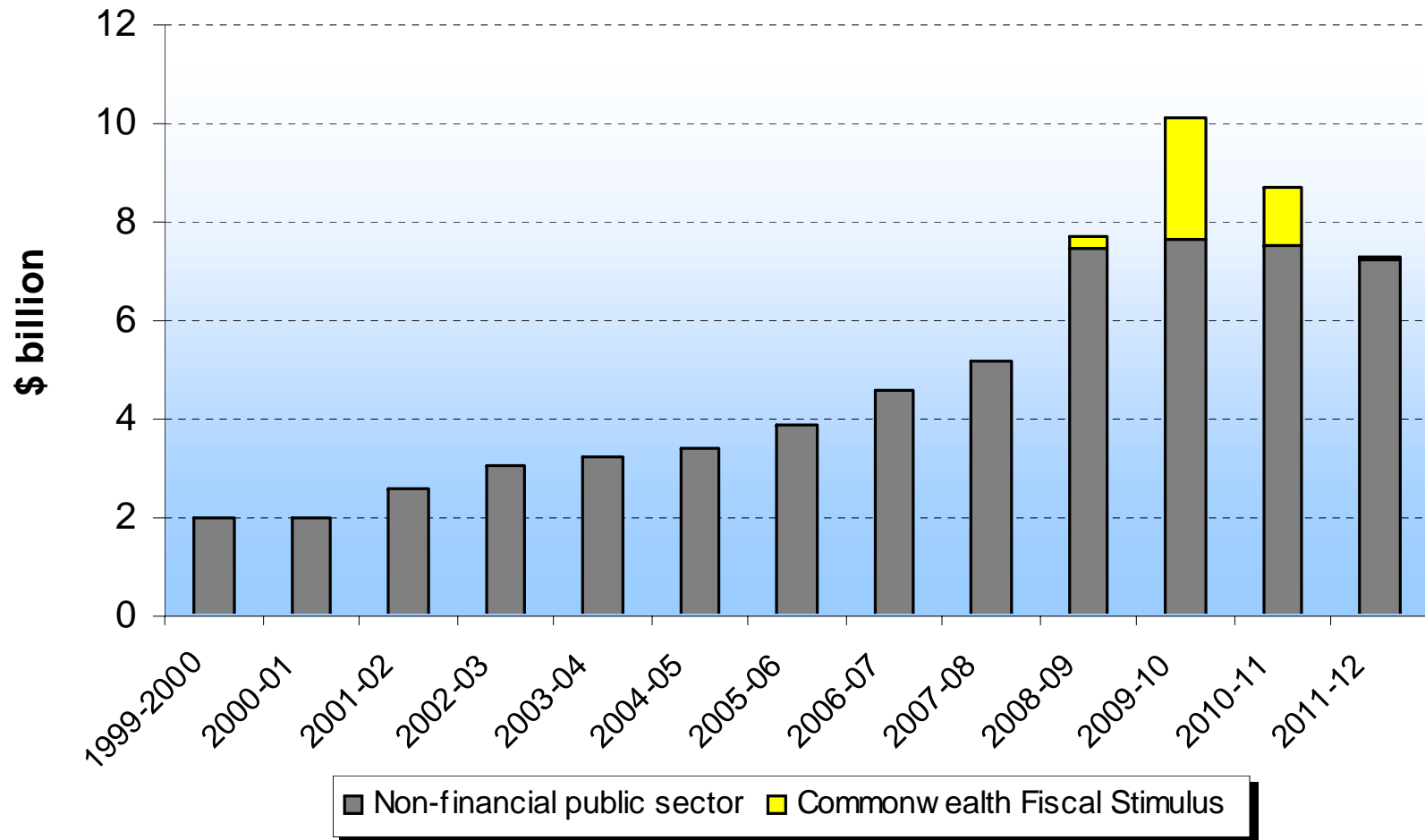
Source: Reserve Bank of Australia

G20 outcomes

1. \$5 trillion Stimulus Package
 - 6 month report card back to G20
2. Toxic Assets management
3. \$1 trillion boost to IMF
4. International Financial Regulatory framework
5. Getting long-term balance right between protectionism and free trade

Working with Commonwealth on Nation Building

Victorian Infrastructure Investment



* Net purchases of fixed assets, non-financial public sector

Source: 2008-09 Victorian Budget Update, DTF estimates

Victorian Government economic priorities

- Build on our record multi-billion dollar infrastructure investment to create jobs
- Maintain Victoria's AAA credit rating
- Boost our investment in skills
- Continue to work in partnership with the Rudd Government
- Continue to provide key services
- Create the best business environment

Victoria's tax reform record: 1999 to 2009

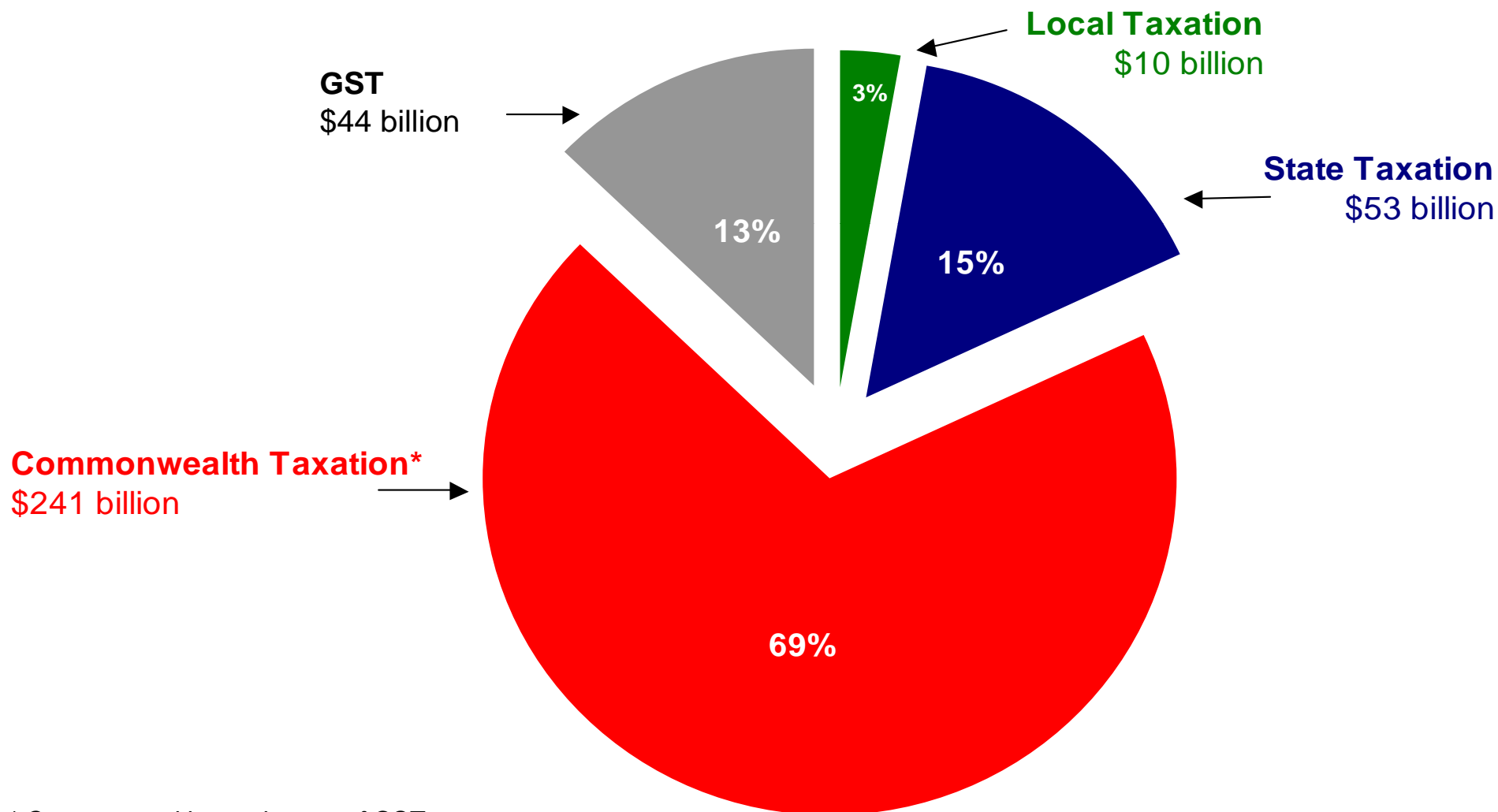
- Announced over \$5 billion of tax cuts, mostly benefiting business.
- Abolished eight State taxes.
- Reduced the payroll tax rate from 5.75 per cent to 4.95 per cent.
- Harmonised payroll tax administration with NSW.
- Four successive years of cuts to & flattening out of the land tax scale.

E.g. Top land tax rate more than halved, from 5% to 2.25%

- *Victorian tax revenue as a percentage of GSP has fallen.*

E.g. 1999-00: 6.1% 2008-09: 4.64%

Most Australian tax revenue is generated by the Commonwealth

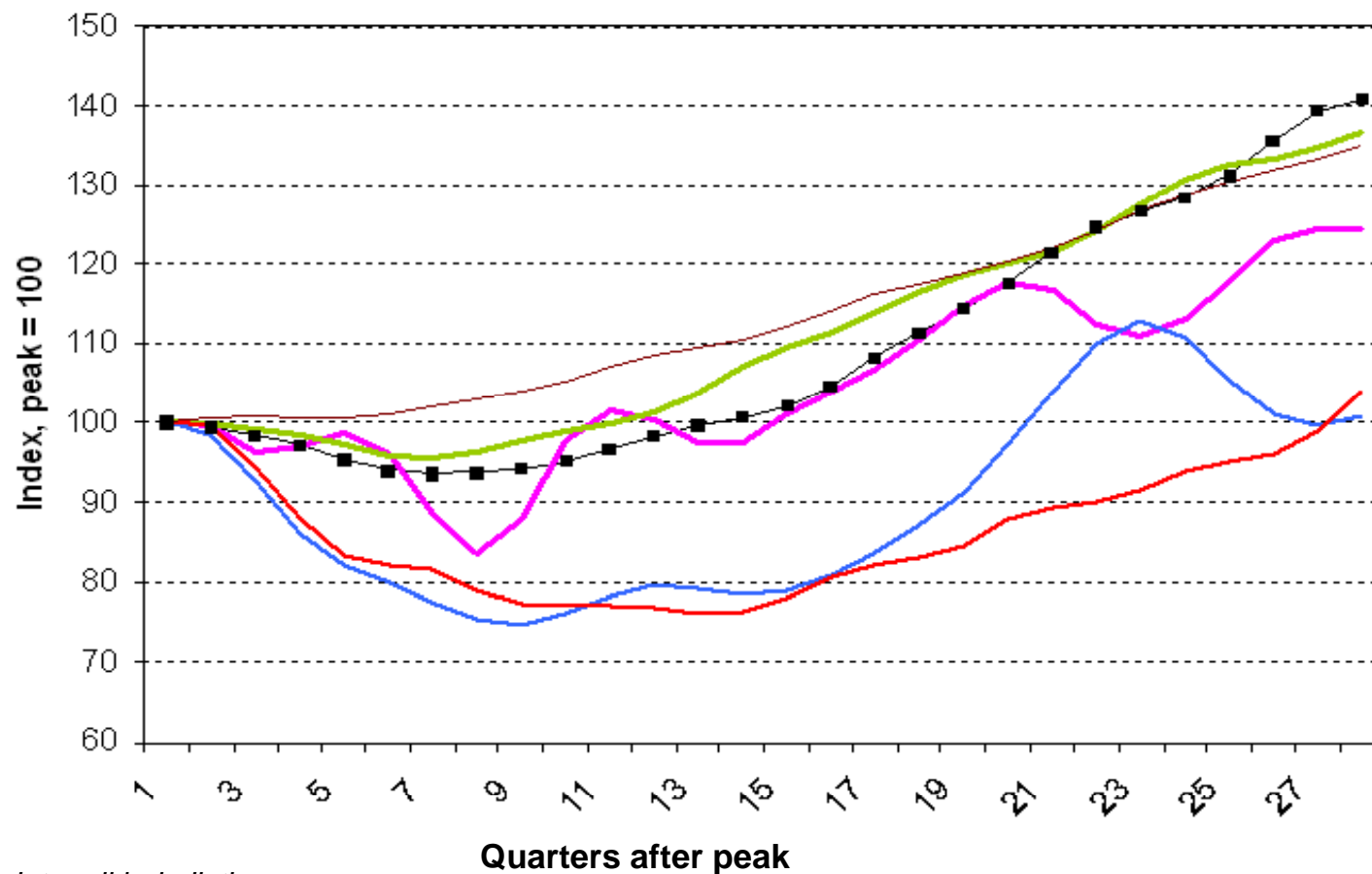


* Commonwealth taxation net of GST

Source: Australian Bureau of Statistics, Cat No 5506.0: Taxation Revenue 2007-08

Commonwealth taxes recover quicker from an economic downturn

Tax revenue relative to previous peak – 1990's recession



Source: ABS, trend data, all jurisdictions

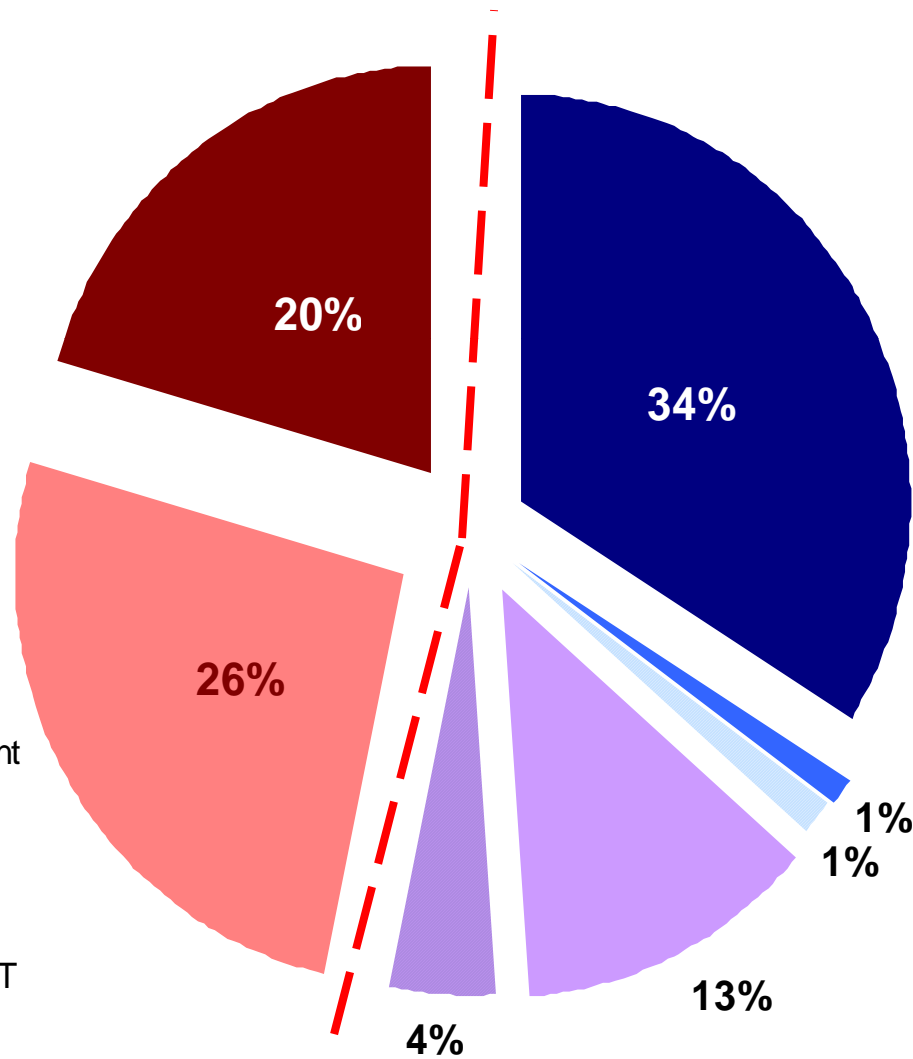
■ Income tax ■ Company tax ■ Payroll tax ■ Stamp duty ■ Land tax ■ GDP

Victoria's revenue sources: 2008-09

Commonwealth Sourced Revenue
\$18 billion
46%

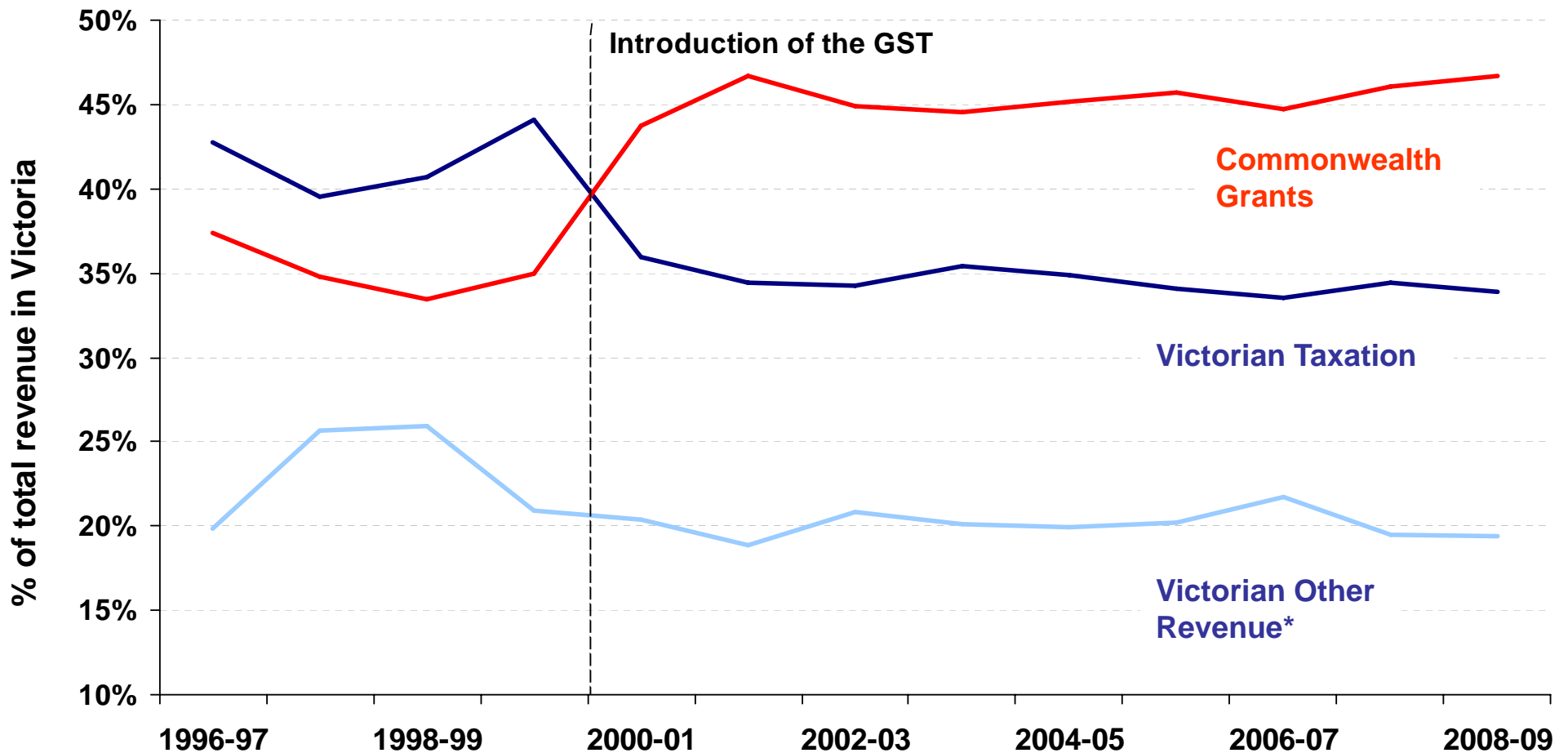
Victorian Sourced Revenue
\$20 billion
54%

- Taxation Revenue
- Interest
- Dividends & income tax equivalent
- Sales of goods & services
- Other revenue
- General Purpose Payments - GST
- Specific Purpose Payments



Source: 2008-09 Victorian Budget Update. 2008-09 Revenue Estimates

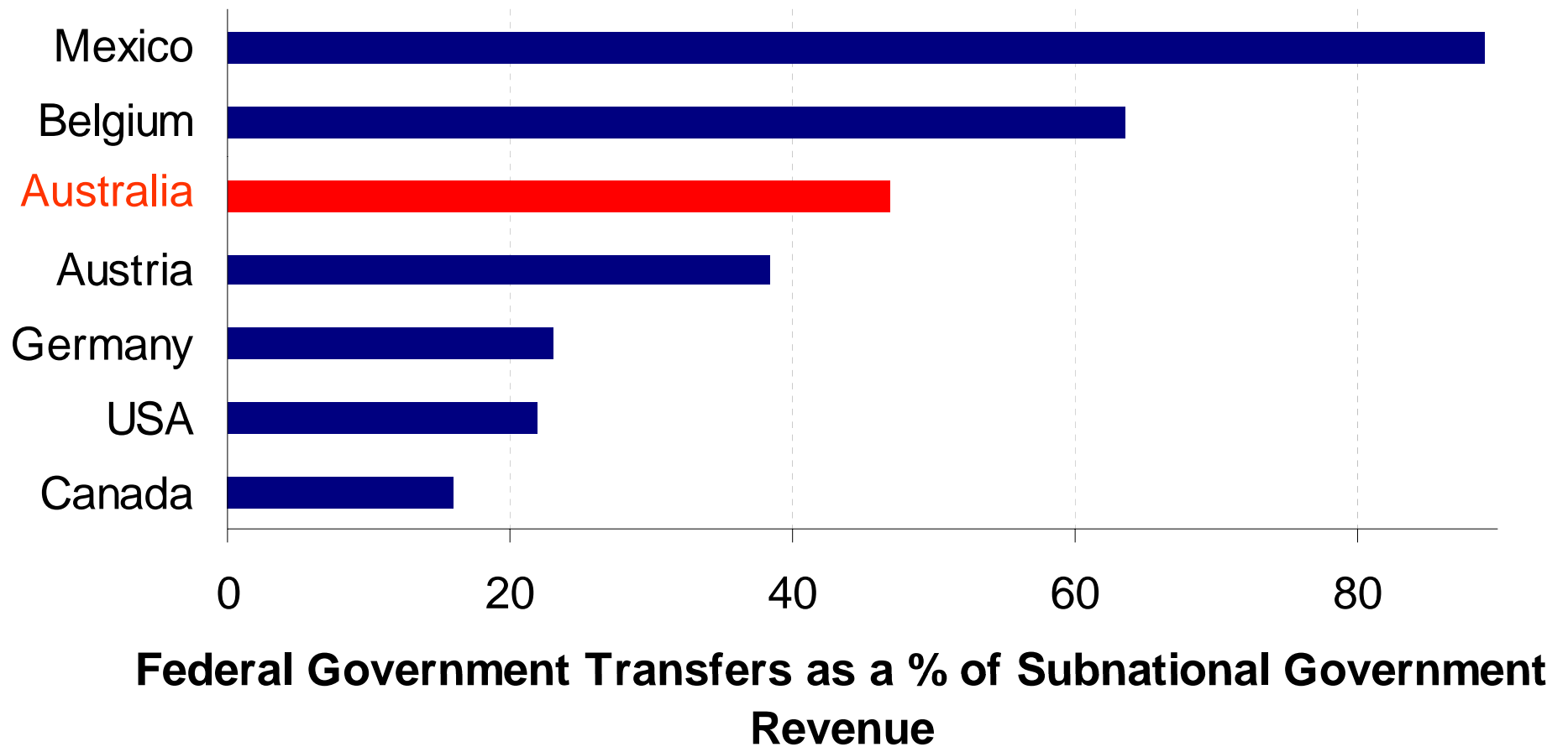
Victoria is relying less on its own taxes than ever before



Source: Victorian Budget Papers, 1995-96 to 2008-09

* Other revenue: fees & fines, sales of goods and services, interest, dividends & income tax equivalent revenue.

Australia's relative large vertical fiscal imbalance





States lack of access to secure revenue

- States cannot unilaterally raise additional revenue through new taxes.
- High Court's interpretation of the Constitution has restricted States from imposing taxes on goods.
- Raising more revenue through existing State taxes (e.g. land tax or payroll tax) is also not a desirable option.
 - Likely to place too great a burden on asset rich, income poor property owners & small business owners.
- Leaves States with few options to raise sufficient revenue to meet the costs of delivering government services.

Extension of Epping Line to South Morang announced today

- + \$562 million to extend the Epping line
- + Construction to start in 2010
- + Will secure up to 460 jobs during construction



Five new development projects fast-tracked today

- 173 Elizabeth St, Coburg (former Kodak site)
 - \$282 million investment, 759 jobs
- 568 St Kilda Road
 - \$150 million investment, 300 jobs
- 69-77 River Street, South Yarra
 - \$55 million investment, 1,000 jobs
- Chirnside Park Golf Course
 - \$300 million investment, 2,460 jobs
- Avalon Airport
 - \$40 million investment, 420 jobs

