Queensland

OVERVIEW

Queensland is Australia’s second largest state by land area, covering more than 22 per cent of the continent. The economy is the third largest in Australia, after New South Wales and Victoria.

Queensland’s natural wonder, the Great Barrier Reef, extends over some 2,000km, covering more than a quarter of the state’s 7,400km of coastline. With a population of 4.83 million, more than 20 per cent of Australians live in Queensland. Around three million Queenslanders live in the state’s south-east corner.

Queensland – Quick facts

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<table>
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<tbody>
<tr>
<td>Land area</td>
<td>1.73 million km²</td>
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<tr>
<td>Queensland population (March 2016)</td>
<td>4.83 million</td>
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<td>Brisbane population* (June 2015)</td>
<td>2.31 million</td>
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<tr>
<td>Language</td>
<td>English</td>
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<tr>
<td>Currency</td>
<td>Australian dollar (AUD)</td>
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<td>Gross State Product (year end June 2015)</td>
<td>AUD301 billion (USD250 billion)</td>
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<td>Gross State Product, annual growth rate (long-run trend)</td>
<td>4.3%</td>
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<td>Flight time: Brisbane to Sydney</td>
<td>1.5 hours</td>
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<td>Workforce** (September 2016)</td>
<td>2.35 million</td>
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<tr>
<td>Inflation rate (year end September 2016)</td>
<td>1.5%</td>
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<tr>
<td>Overseas visitors (year end June 2016)</td>
<td>2.48 million</td>
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* Greater capital city statistical area ABS 3101.0.
** Total number of people employed.

Data source: Tourism Research Australia, ABS, RBA, Queensland State Accounts.
Queensland’s rate of economic growth has consistently outperformed the average of other advanced economies since the early ‘90s, a trend that is forecast to continue.

Note: 2015-16 onwards are forecasts/projections.
Data sources: ABS, IMF, Queensland Treasury
Queensland’s economic growth has consistently outperformed the Australian average since the early 1990s, a trend that is forecast to continue in the near term.

Figure 9: Queensland’s economic growth compared to Australia

Note: 2015-16 onwards are forecasts/projections.
Data sources: ABS, Queensland Treasury, Australian Treasury, Queensland State Accounts.
Queensland is forecast to have the strongest economic growth of all Australian states.

Figure 10: Queensland’s economic growth compared to other states

Queensland is forecast to have the strongest economic growth of all Australian states.


Source: Thomson Reuters Datastream, QTC
Similar to Australia, Queensland has a diverse economy with no single sector making up more than 12 per cent.

Figure 11: Australian states’ and territories’ economic output by sector

12014-15, Gross Value Added, chain volume measure (CVM), 2013-14 reference year.
* Public sector and utilities includes: public administration and safety; and electricity, gas, water, waste services.
** Natural resources includes the extraction of naturally occurring mineral solids, such as coal and ores; liquid minerals, such as crude petroleum; and gases, such as natural gas.
*** Other includes: dwellings; professional, scientific and technical services, accommodation and food services; other services; administrative and support services; arts and recreation.

Data source: ABS
Declining business investment due to the wind down of the resources investment boom has weighed on economic growth in recent years. However, business investment is forecast to return to a sustainable longer term growth path by 2017-18.

Other expenditure categories such as household consumption (which represents close to 60 per cent of gross state product), dwelling investment, public consumption and investment and net exports are expected to contribute to economic growth over the forecast period.

Footnote: 1 Chain volume measure (CVM), 2013-14 reference year.
Note: 2015-16 onwards are forecasts / projections.
Data source: Queensland Treasury.
Solid growth is expected across most key goods and service export categories going forward, including coal and tourism. The ramp up in LNG exports is forecast to drive overall growth in the value of Queensland’s exports in the coming years.

Figure 13: Queensland’s exports - Total\(^1\)

\(^1\) Nominal value. Note: 2015-16 onwards are forecasts / projections.

Data sources: ABS unpublished trade data, Queensland Treasury

Source: Thomson Reuters Datastream, QTC
Asia remains Queensland’s most important export market, accounting for more than two-thirds of Queensland’s exports in 2014-15.

Figure 14: Queensland’s exports - goods exports by country

1 Share of total goods exports, per cent. Data sources: ABS unpublished trade data, Queensland Treasury.

Source: Thomson Reuters Datastream, QTC
Strong growth in overseas visitor nights over the past two years has been driven by increases in the number of visitors from a range of countries including China and India. This trend has been supported by rising levels of disposable income and a falling Australian dollar and should continue into the future as the Asian middle class continues to grow.

Data sources: Tourism Research Australia, Queensland Treasury
Strong increases in overseas vocational education and English language course student commencements have driven education exports in Queensland in recent years.

*Vocational education is tertiary education and training that provides accredited training in job ready and technical skills.

Data source: Austrade.

Figure 16: Queensland’s exports – Services (Education) – Overseas student commencements
A lower Australian dollar supports exporters and import-competing businesses, including key services exports such as tourism and education.

Data sources: RBA, Queensland State Accounts
Figure 18: Queensland’s labour market

The solid headline economic growth in Queensland in 2015-16 and 2016-17 is being driven by LNG exports, which tend to be less labour intensive. Consequently employment growth is expected to be moderate, leading to a relatively stable unemployment rate in the short term.

Notes: Year-average terms. 2015-16 onwards are forecasts/projections.
Data sources: ABS, Queensland Treasury
As the economy adjusts from heightened activity in resources construction, Queensland’s population growth has slowed to around the national average.

Note: 2015-16 onwards are forecasts/projections. Australia’s population growth forecasts/projections, which are as at 31 December for a given year, are not directly comparable to Queensland’s forecasts/projections which are in year-average terms.

Data sources: ABS, Queensland Treasury, Australian Treasury

Source: Thomson Reuters Datastream, QTC
# Queensland’s fiscal position

## Queensland Government’s Fiscal Principles

<table>
<thead>
<tr>
<th>1</th>
<th>The Government will target ongoing reductions in Queensland’s relative debt burden, as measured by the General Government debt to revenue ratio.</th>
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<tr>
<td>2</td>
<td>The Government will target a net operating surplus that ensures any new capital investment is funded primarily through recurrent revenues rather than borrowing.</td>
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<tr>
<td>3</td>
<td>The capital program will be managed to ensure a consistent flow of works to support jobs and the economy and reduce the risk of backlogs emerging (measured as purchases of non-financial assets).</td>
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<td>4</td>
<td>Maintain competitive taxation by ensuring that the General Government sector own-source revenue remains at or below 8.5 per cent of gross state product, on average, over the forward estimates.</td>
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<td>5</td>
<td>Target full funding of long term liabilities such as superannuation and WorkCover Queensland in accordance with actuarial advice.</td>
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<td>6</td>
<td>Maintain a sustainable public service by ensuring that overall growth in full-time equivalent employees, on average over the forward estimates, does not exceed population growth.</td>
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Total grants* of around AUD27 billion (including those from the Australian Government) are expected to account for 51 per cent of Queensland’s total government revenue in 2016-17.

1 May not add to 100 per cent due to rounding.

* Grants from the Australian Government are almost evenly split between general and specific purpose payments. General purpose payments include GST revenue grants and associated payments, are ‘untied’ and used for both recurrent and capital purposes. Specific purpose payments are used to meet Australian Government and shared policy objectives.

** This comprises the taxes and levies listed in Figure 21.

Data source: Queensland Government 2016-17 Budget
The key revenue sources of GST, tax and royalties are expected to grow at rates more consistent with long-run average rates over the coming years, as opposed to the rapid pace of growth observed for most of the 2000s.

Data source: Queensland Treasury
AUSTRALIAN GOVERNMENT FISCAL SUPPORT

Australia is one of only ten countries with a AAA credit rating from all three major ratings agencies; Standard & Poor’s, Moody’s Investors Service and Fitch Ratings.

The Australian Government provides explicit financial support to all Australian states and territories in the form of:

- the payment of grants under the principle of the Horizontal Fiscal Equalisation scheme
- the Australian Government’s Natural Disaster Relief and Recovery Arrangements, which provides partial reimbursement for eligible costs incurred as a result of natural disasters, and
- the offer of a time-limited, voluntary guarantee over Australian state and territory borrowings from July 2009 to December 2010. (See Appendix C)

See Appendix D for more information on tax sharing arrangements.

Horizontal fiscal equalisation involves the payments of grants (from the revenue raised from the Goods and Services Tax (GST)) to Australian states and territories with the aim of giving all states the capacity to provide services and associated infrastructure to the same standard.

In 2016-17 grants from the Australian Government will account for 48.7 per cent of Queensland’s revenue.
Queensland’s taxation environment is favourable compared to other Australian states and territories.

Figure 23: Tax per capita by states and territories (2016-17)

Health and education made up a significant proportion of the State’s 2016-17 budgeted expenses.

Figure 24: Queensland budgeted expenses 2016-17
AUD52.6 billion

1 May not add to 100 per cent, due to rounding.

Data source: Queensland Government 2016-17 Budget

Source: Thomson Reuters Datastream, QTC
Queensland has and will continue to implement strong expense management.

Figure 25: Annual growth in general government sector expenses

Data sources: Actual data from ABS, 2015–16 onwards are forecasts and projections from the Queensland Government 2016-17 Budget.

Source: Thomson Reuters Datastream, QTC
Net operating surpluses are expected in each year of the forward estimates.

Data sources: Actual data from ABS, 2015–16 onward are forecasts and projections from the Queensland Government 2016-17 Budget.
Spending on improving Queensland’s ‘transport and communication’ and ‘fuel and energy’ infrastructure comprises the bulk of the Government’s budgeted capital works program in 2016-17.

Mainly includes general government sector equipment investment expenditures on economic services and those not classified elsewhere.

Data source: Queensland Government 2016-17 Budget
Credit ratings

RATINGS AGENCIES RATIONALE

STANDARD & POOR’S
AA+/Stable/A-1+

MOODY’S INVESTORS SERVICE
Aa1/Negative/P-1

Summary rating rationale

‘Queensland’s economy is very strong and supports its ratings. In our view, the State’s prudent approach to debt management, as well as the development of medium-term and long-term fiscal and economic strategies and its prudent expenditure management, demonstrates its financial strength. The stable outlook reflects our expectation that the State’s financial management will remain strong and its budgetary performance will continue to improve compared to recent years.’

‘Queensland’s credit quality reflects the state’s strong budget flexibility which allows it to adjust revenues and expenditures as required to meet fiscal challenges. The rating is supported by secure and predictable Commonwealth government grants, ample levels of internal liquidity, and a diverse economic base with strong growth potential... the State’s abundant natural resource base and its well developed and diversified services sector provide ample support for its financial and debt operations.’

Note: Information on Queensland’s domestic and international peers’ credit ratings can be found in Appendices G & H.

Data source: Ratings Direct: Research Update: Queensland (State of), 16 October 2016.

One of the Government’s fiscal principles is to target an ongoing reduction in Queensland’s debt burden, as measured by the General Government debt to revenue ratio. This ratio is expected to be materially lower than was expected from the 2014-15 Budget. This reflects the Government’s Debt Action Plan announced in the 2015-16 Budget and followed up in the 2015-16 MYFER and 2016-17 Budget. Other key fiscal ratios can be found in Appendix J.

Data source: Various Queensland Government Budgets

Source: Thomson Reuters Datastream, QTC
One of the Government’s fiscal principles is to target net operating surpluses that ensure any new General Government sector capital investment is primarily funded through recurrent revenues rather than borrowing.

Across the period 2015-16 to 2019-20, the proportion of the capital program that is projected to be funded via net cash inflows from operating activities is 75 per cent.

Data source: Queensland Government 2016-17 Budget, 2015–16 onward are forecasts and projections.

Source: Thomson Reuters Datastream, QTC
Summary of key points

The State of Queensland:

- has a diverse economy with services making up a significant proportion of total output
- is expected to see less of a drag from business investment on overall growth in Gross State Product as well as positive contributions from all other major categories
- has a long history of economic growth and over the past 25 years has generally outperformed both the Australian economy and advanced economies more broadly
- has a forecast economic growth rate that is expected to exceed that of all the other states across the forward estimates
- has a stable revenue stream in the form of grants it receives from the Australian Government
- has General Government debt levels that continue to fall when expressed as share of revenue
- has an ongoing General Government capital works program, which will be funded primarily through recurrent revenue as opposed to borrowing, and
- is rated AA+/Stable/A-1+ and Aa1/Negative/P1 by Standard & Poor’s and Moody’s Investors Service respectively.