

# Budget

## OVERVIEW

This document provides an overview of the Commonwealth Budget, recent economic developments and the outlook for 2000-01, as presented in the Budget Papers circulated by the Treasurer on 9 May 2000.

This overview is presented in a shorter and easier to read format than the main Budget Papers.

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## Overview

# The 2000-01 Budget

The 2000-01 Budget delivers the Government's fourth consecutive budget surplus. It lays the foundations for continued strong economic and employment growth and provides for further reductions in government debt. It also provides a range of new initiatives to strengthen our social and economic infrastructure, particularly in rural and regional Australia. It delivers a more robust tax system for the future and the largest income tax cuts in our history.

### *the Government's fourth cash surplus in a row*

A cash surplus of \$2.8 billion is expected in 2000-01 and further surpluses are in prospect.

Past and future surpluses mean the Government is able to reduce public debt for the fourth year in a row.

### *the Government has slashed debt*

By the end of 2000-01, the Government will have reduced net debt by around \$50 billion since coming to office. Over the last 5 years of the Labor Government, net debt increased by nearly \$80 billion. By the end of this year, more than half of Labor's debt will have been wiped out.

The Australian Government's net debt is now amongst the lowest of any nation in the world.

This Budget maintains a strong fiscal position while delivering a fair and robust tax system for our future and the largest personal income tax cuts in Australia's history.

### *new initiatives in high priority areas while delivering the largest income tax cuts in our history*

The Budget provides for new initiatives in high priority areas, including rural and regional Australia, families, health, welfare, new technology, communications, defence and East Timor.

The Government is announcing in this Budget that it will not be proceeding with the temporary 12 month Defence – East Timor levy, due to the lower than expected cost of the Defence deployment in East Timor and the improved budget position.

## COMMONWEALTH BUDGET BALANCE

	Actual		Estimates		Projections	
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Fiscal balance (\$b)	3.9	9.7	5.4	1.1	7.6	13.9
Per cent of GDP	0.7	1.5	0.8	0.2	1.0	1.7
Underlying cash balance (\$b)	4.2	7.8	2.8	3.2	8.8	14.4
Per cent of GDP	0.7	1.2	0.4	0.5	1.2	1.8
Headline cash balance (\$b)	11.1	17.2	8.0	14.0	24.7	21.0
Per cent of GDP	1.9	2.7	1.2	2.0	3.3	2.6

## Overview

# The Australian Economy

Australia's recent economic achievements have been outstanding, with very strong growth, falling unemployment and low inflation. The recovery in world economic growth will help prolong Australia's current expansion well into the new decade.

Australia continues to enjoy the benefits of strong economic growth, with growth of around 4¼ per cent in 1999-2000.

*Australia's strong growth record is set to continue*

This has been accompanied by a falling unemployment rate, rising real incomes and low inflation. All Australians have benefited from rising living standards.

This is a remarkable performance, especially as it has occurred while many of our Asian trading partners have recently been in recession.

*this is a result of the Government's sound policy framework*

Australia's excellent performance is a result of stable macroeconomic policies and the Government's ongoing structural reforms.

Looking ahead, the Australian economy has the potential to grow at around 3½ to 4 per cent over the next few years.

*economy to grow by 3¾ per cent in 2000-01*

The improving international environment will create increased demand for Australian goods and services. This will support continued economic growth.

Australia's growth in 2000-01 is forecast to be a healthy 3¾ per cent. Employment growth is set to continue with the unemployment rate falling to 6¼ per cent by June 2001.

*unemployment rate to fall to 6¼ per cent by June 2001*

### ECONOMIC FORECASTS<sup>(a)</sup>

	1999-2000	2000-01
	Forecasts	
Real GDP	4 1/4	3 3/4
Employment	2 3/4	2 1/4
Unemployment rate - June quarter (per cent)	6 3/4	6 1/4
Average earnings (wages)	3	4 1/4
Ongoing inflation - through the year	3	2 1/2

(a) Percentage change from previous year, unless otherwise stated.

## Budget Priorities

# Achieving the Government's Social and Economic Objectives

This Budget introduces a range of key initiatives to improve the living standards and future economic prospects of all Australians, but particularly those in rural and regional Australia. This Budget advances the Government's social and economic priorities, while maintaining surpluses now and into the future.

*this Budget advances the Government's social and economic objectives*

The 2000-01 Budget has been built around the Government's broader economic and social objectives. These include:

- keeping the budget in surplus and continuing to reduce Government net debt
- delivering a fairer and more robust tax system and the largest tax cuts in our history
- strengthening our social and economic infrastructure, especially in rural and regional Australia
- maintaining a fair and effective social safety net, particularly in the areas of health and social security.

*achieving these objectives will build on Australia's strengths and improve our living standards*

The 2000-01 Budget introduces a range of new measures consistent with these objectives. These measures will:

- help build a better future for rural and regional Australia
- enhance family and community life
- extend health services and ensure a fairer welfare system
- advance new technologies, communications and the arts
- support a number of high priority defence projects
- maintain Australia's commitment to rebuilding East Timor.

*this Budget assists rural and regional Australia become more innovative, profitable and sustainable*

## Budget Priorities

# Supporting Rural and Regional Australia

Budget measures totalling \$1.8 billion over the next 4 years will improve health services to rural and regional Australia and enhance the prospects and profitability of the rural sector.

*this Budget shows the ongoing commitment of the Government to rural and regional Australia*

The *Regional Health Package – More Doctors, Better Services* provides \$562 million over 4 years. This health package will:

- expand medical training facilities to increase the opportunities for medical students to train in rural service delivery and enhance support for rural doctors
- add 85 new regional health services, provide support for small rural community hospitals and aged care facilities and improve access to specialists
- encourage medical graduates to commit to rural practice.

*increase trainee GPs in rural areas by at least 75 in 2000-01*

*access to quality health care in rural and regional Australia will be greatly improved*

A new *Fuels Sales Grants Scheme*, costing \$501 million over 4 years, to reduce the pump price of petrol and diesel in rural and regional areas.

*addressing the divergence in fuel prices between city and regional areas*

The *Agriculture – Advancing Australia* (AAA) package will provide \$309 million over 4 years for initiatives to enhance farmers' business skills, improve market access for exports and provide support for rural families in financial difficulty.

*the AAA package will improve the profitability and competitiveness of the rural sector*

To assist isolated families with education costs, funding is being increased under the *Assistance for Isolated Children Scheme*.

### ADDITIONAL ASSISTANCE TO RURAL AND REGIONAL AUSTRALIA

	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	Total \$m
Regional Health Package - More Doctors, Better Services					
New General Practitioner Registrars	10	21	32	40	102
Medical Training - Additional University Departments of Rural Health and Clinical Schools	9	25	38	46	118
Regional Health Services Expansion	5	14	22	28	69
Medical Specialist Outreach Assistance	5	14	15	15	48
More Allied Health Services	11	11	13	15	49
Bonded Scholarships for Medical Students to Practice in Rural Areas	3	6	10	13	32
Enhanced Rural and Remote Pharmacy Package	8	12	11	11	42
Other Regional Health Package Measures	18	23	28	33	102
Total	68	127	167	201	562
Fuels Sales Grants Scheme	121	120	125	135	501
Continuation of the Agriculture - Advancing Australia Package	38	74	91	107	309
Increase in Youth Allowance assets limits for farms and businesses	19	37	38	39	132
Regional Equalisation Plan for Digital Television	23	23	27	27	100
Other Rural and Regional Measures	59	60	60	45	224
<b>Total additional assistance</b>	<b>327</b>	<b>441</b>	<b>508</b>	<b>553</b>	<b>1828</b>

## Budget Priorities

# Stronger Families and a Fairer Welfare System

*the Government extends support for families in this Budget*

The level of assistance provided to families will increase significantly with the introduction of *The New Tax System*.

In addition to \$12 billion in personal income tax cuts, over 2 million families will benefit from substantial increases in family allowances, costing \$2.4 billion per year.

This Budget provides an additional increase in assistance, aimed at strengthening and supporting the family unit.

The *Stronger Families and Communities Strategy* will invest an additional \$240 million over 4 years.

*new initiatives help meet the needs of parents and children*

Key measures will provide greater flexibility and choice in child care, improve parenting skills, help families at risk of breakdown and encourage community leadership and problem-solving.

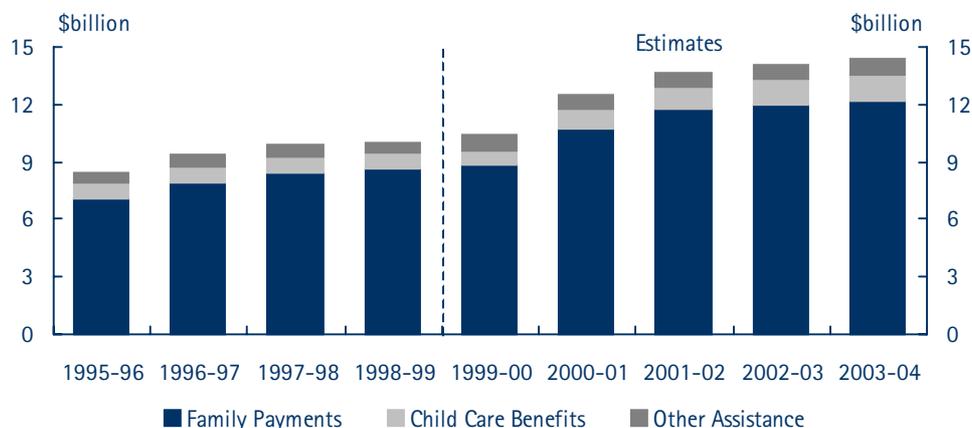
A package of *Child Support* measures will provide better support for parents and children after family separation.

*a fairer social safety net*

Measures in this Budget support the Government's goal of maintaining a fair social safety net and delivering assistance to those who need it most.

For example, this Budget amends the means test treatment of private trusts and companies to ensure all beneficiaries will be treated the same.

### GOVERNMENT ASSISTANCE TO FAMILIES WITH CHILDREN



# Budget Priorities

## A Healthy Australia

Measures in this Budget aim to deliver health benefits to all Australians and to maintain high quality health services.

Additional funding for public hospitals and nursing homes has already been announced by the Government.

*extra funding for hospitals and nursing homes already announced*

Additional funding of \$650 million over the last 4 years of the *Australian Health Care Agreements* provides the States and Territories with greater scope to improve public hospital services.

Grants of around \$240 million over 3 years will be provided to public and not-for-profit hospitals to assist with the transition to the new fringe benefits tax arrangements.

An extra \$148 million over 6 years is provided in subsidies to nursing homes, helping to improve quality of care.

*new measures safeguard the health and safety of all Australians*

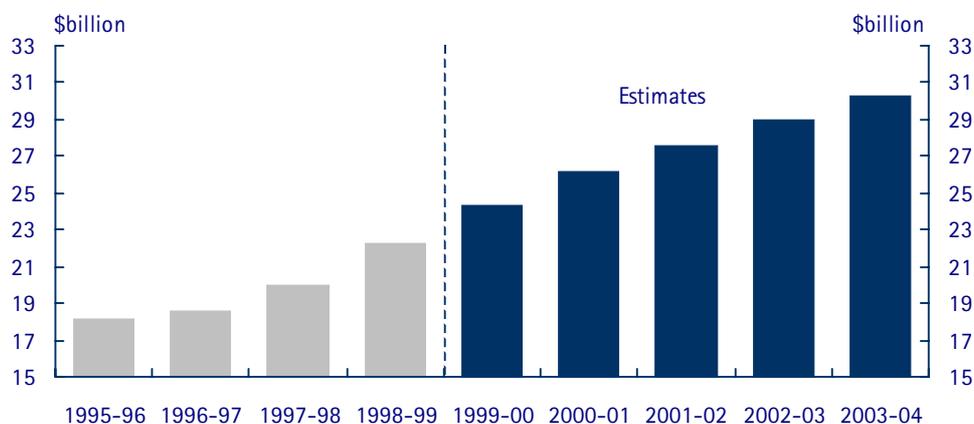
Population health and safety measures aim to strengthen food standards and regulation, and improve the safety of our blood supply. Over 4 years, \$93 million will be provided.

The number of veterans and non-veterans who receive home and community care services will be increased. The Government has also responded to the *Vietnam Veterans' Health Study*, with a package improving the health of veterans and their families.

*increased home and community care*

Health spending is projected to increase by 66 per cent from 1995-96 to 2003-04.

### COMMONWEALTH HEALTH SPENDING



## Budget Priorities

# Advancing New Technology, Communications and the Arts

*the Government is investing in  
biotechnology research*

In this Budget, \$31 million over 4 years is allocated to encourage the commercialisation of biotechnology research.

Biotechnology offers economic opportunities for Australia based on our existing research strengths in agriculture and medicine.

*helping to ensure a smooth  
transition to digital television*

Substantial measures in this Budget further promote the transition to digital television services for the ABC, SBS and regional and remote commercial broadcasters.

*continued support for Australian  
film and television and additional  
funding for major performing arts  
companies*

Funding for the Australian Film Finance Corporation will be maintained at \$50 million per annum to support Australian film makers and quality television programmes.

The Budget also provides \$43 million over 4 years to help place major performing arts companies on a firmer artistic and financial footing. This responds to the Major Performing Arts Inquiry.

## Maintaining a Secure Australia

*a review of defence requirements  
is in progress*

The Government is committed to maintaining a strong and modern defence force.

Reflecting this, the Government is currently undertaking a major review of Australia's defence requirements.

*extra support for high priority  
areas*

This Budget provides \$100 million in 2000-01 to support defence in a number of high priority areas, including the defence force reserves, information management and logistical support.

Additional funding of \$128 million in 2000-01 is provided for the enhancement of two Collins Class submarines.

## Budget Priorities

# Strengthening Border Integrity

The 2000-01 Budget introduces a number of additional measures to address the increase in illegal immigrants arriving in Australia, particularly by boat.

*the increase in illegal immigrants is being addressed and detection and detention processes are being improved*

A package will improve our detection and detention capabilities, including tighter welfare rules for temporary protection visa holders, better coordination between authorities and a new detention facility in Darwin.

These initiatives will reduce detention costs in the long term.

## Rebuilding East Timor

The Government continues to lead the way in its support for the United Nations efforts to rebuild East Timor.

*this Budget demonstrates the Government's ongoing commitment to East Timor*

Total Defence spending in 2000-01 by the Government on East Timor will amount to \$945 million.

Funding of \$150 million over 4 years will be provided for foreign aid as well as \$104 million over 4 years for the continued deployment of our civilian police.

This will help to restore basic services to East Timor and provide further humanitarian relief for its people.

*further increases in Australia's humanitarian commitment to East Timor*

### NET COST OF EAST TIMOR

	1999-00 \$m	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m	Total(a) \$m
<b>Expenses</b>						
<i>Defence</i>						
Australian Defence Forces	731	922	736	669	675	3002
Tax exemption for ADF personnel in East Timor	62	23	23	23	23	92
<i>Non-Defence</i>						
Australian Federal Police	26	25	26	26	27	104
Aid	75	40	40	35	35	150
Provision of safe haven for evacuees	21	-	-	-	-	-
Australian Quarantine and Inspection Service	-	2	2	2	2	8
<b>Revenue</b>						
<i>Defence</i>						
UN reimbursement	18	114	106	76	76	372
<b>Net cost of East Timor</b>	<b>897</b>	<b>898</b>	<b>721</b>	<b>679</b>	<b>686</b>	<b>2984</b>

(a) Total cost over 4 years from 2000-01.

## Budget Priorities

# Delivering the Benefits of Tax Reform to Individuals

*the largest personal income tax cuts in Australia's history*

On 1 July this year, *The New Tax System* will deliver the largest personal income tax cuts in our history – \$12 billion a year.

Under the new tax scales, income tax will be reduced for all taxpayers and spread more fairly so everyone pays their fair share of tax.

More than 80 per cent of taxpayers will face a top marginal tax rate of just 30 per cent or less.

Taxpayers will benefit in 2000-01 from the Government's decision not to proceed with the temporary Defence-East Timor levy.

*large increases in government benefits and family payments*

Family benefits will be increased by \$2.4 billion a year and all pensions and allowances will increase by 4 per cent.

Pensions and allowances are guaranteed to remain 2 per cent above what they would otherwise have been.

*large tax cuts and increases in benefits will more than compensate for price changes*

The Government's tax cuts and increases in benefits and allowances will more than compensate for the 'one-off' impact on prices due to the changes to indirect tax arrangements.

### FAIRER AND LOWER INCOME TAX

Current Tax Rates		New Tax Rates	
Current Scale - Taxable Income *	Current Tax rate %	New Scale - Taxable Income*	New Tax rate %
\$0 - \$5,400	0	\$0 - \$6,000	0
\$5,401 - \$20,700	20	\$6,001 - \$20,000	17
\$20,701 - \$38,000	34	\$20,001 - \$50,000	30
\$38,001 - \$50,000	43	\$50,001 - \$60,000	42
\$50,000 +	47	\$60,000 +	47

\* In addition, a low income rebate of \$150 continues to apply.

## Budget Priorities

# Delivering the Benefits of Tax Reform to Business

*The New Business Tax System* will ensure Australia's business tax arrangements will be more competitive by international standards and will provide substantial benefits to business – both here and overseas.

Australia will have one of the lowest company tax rates in the region at 30 per cent from 2001-02.

Business costs will fall by \$7-8 billion per year and the costs to exporters will be reduced by over \$3.5 billion. This will allow Australian businesses to compete more effectively with imported goods.

The present complex payment systems for businesses will be simplified through the Pay As You Go system and the introduction of the *Australian Business Number*.

Incentives to save and invest have already been improved by the Government's reductions in the capital gains tax. For individuals, only 50 per cent of gains is now taxed.

To help ensure a smooth transition to *The New Tax System*, the Government is delivering a \$500 million assistance programme to small and medium business, community groups and education bodies.

*business tax reform was essential for Australia's future*

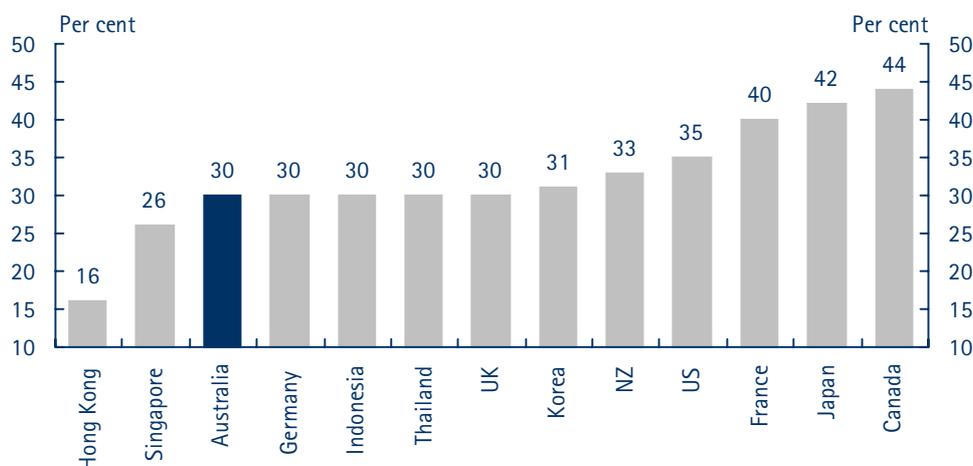
*low company tax rate*

*business costs will be reduced and exports will be GST-free*

*capital gains tax already reduced*

*Government assistance will help ensure a smooth transition*

### AN INTERNATIONALLY COMPETITIVE COMPANY TAX RATE

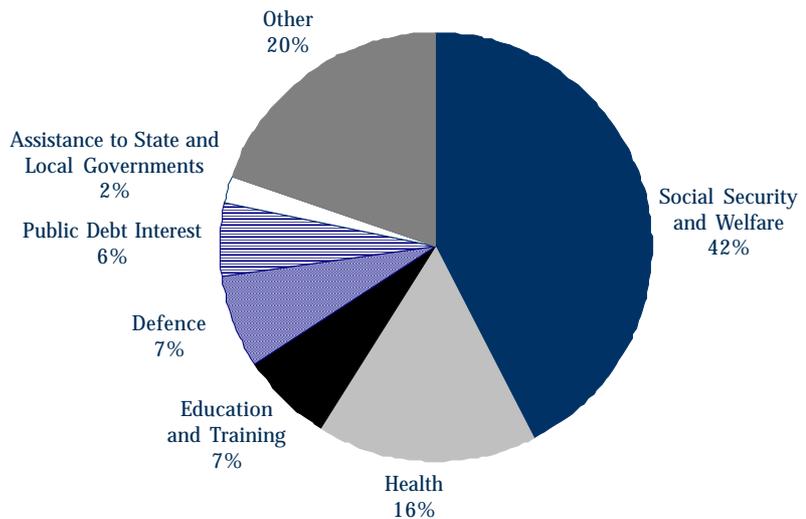


# Expenses and Revenue – Major Categories

The allocation of expenses by function shows the Government's ongoing commitment to maintaining a fair and effective social safety net, particularly in the areas of social security, health and education. Changes to revenue in 2000-01 reflect the impact of the Government's comprehensive tax reforms.

**COMMONWEALTH GENERAL GOVERNMENT EXPENSES  
BY FUNCTION (2000-01)**

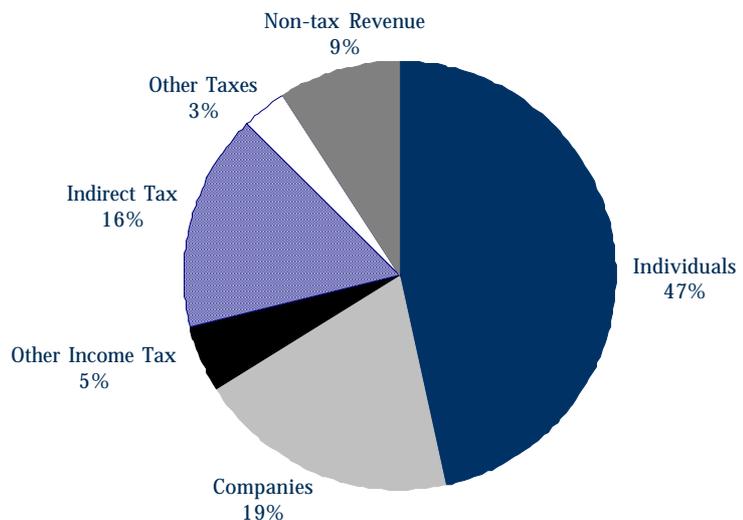
*spending on social security, health and education represents around two-thirds of total expenses*



*payments to State and Local governments have fallen significantly . . . they will instead receive all revenue from the GST*

**COMMONWEALTH GENERAL GOVERNMENT REVENUE  
MAJOR CATEGORIES (2000-01)**

*individuals income tax share will be reduced in 2000-01 by tax cuts*



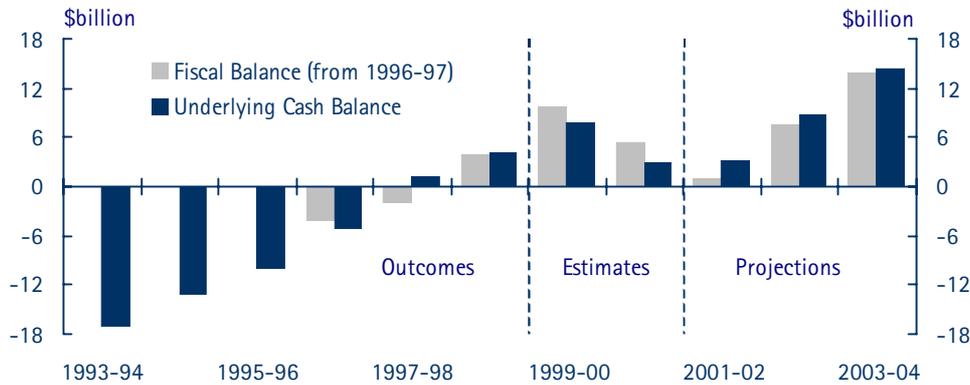
*the indirect tax share falls with the abolition of the Wholesale Sales Tax*

*GST revenue is not included here as it flows to the States*

# The Government's Fiscal Strategy

The Government has placed Australia in a strong fiscal position. Central to this success has been returning the budget to surplus and reducing government debt. This has enabled the Government to introduce major tax reform while keeping the budget in surplus.

**BUDGET BALANCE – FISCAL AND UNDERLYING CASH**



The Government's fiscal strategy is to keep the budget in surplus while our economic growth prospects remain sound. The Government has more than met the specific fiscal objectives it set itself when coming to office.

*the fiscal strategy has helped to build confidence in Australia*

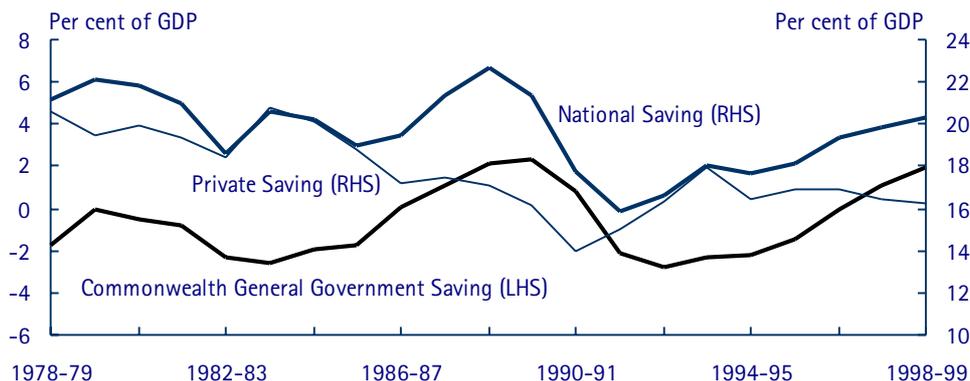
- This Budget will be the fourth cash surplus in a row and more surpluses are in prospect.
- The ratio of net debt to GDP has been reduced from almost 20 per cent in 1995-96 to below 10 per cent by 2000-01.
- The Commonwealth's net assets position is improving.
- There has been increased spending in high priority areas while the ratio of expenses to GDP has fallen and there has been no increase in the overall tax burden.

*the Government continues to meet its fiscal objectives and will exceed its debt reduction target*

The strategy has seen a substantial increase in public saving in recent years, which has supported a rise in national saving.

*raising national saving will enhance Australia's growth potential and living standards*

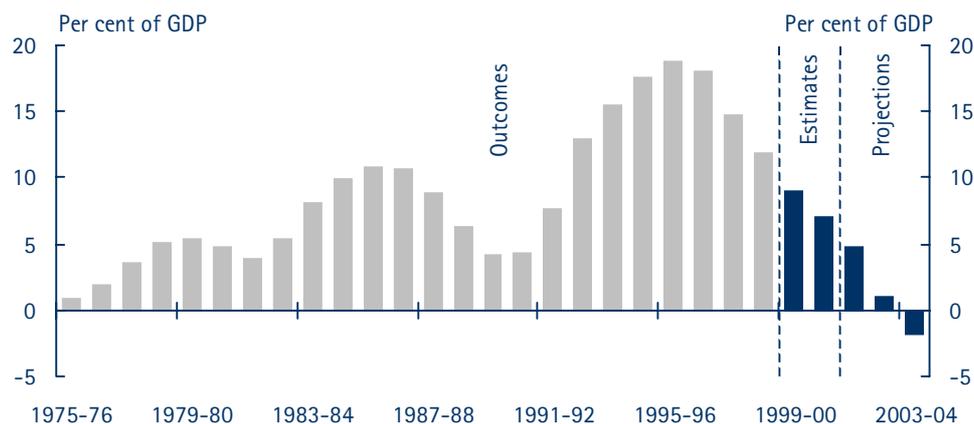
**SAVING – NATIONAL, PRIVATE AND COMMONWEALTH**



# Eliminating Net Debt

The rapid build up of debt that occurred in the first half of the 1990s has been brought under control. This Budget provides for further significant reductions in government debt. The Government is expected to exceed its debt reduction target as a result.

## COMMONWEALTH GENERAL GOVERNMENT NET DEBT TO GDP



*this Budget provides for further significant reductions in government debt*

*from a peak of almost 20 per cent of GDP in 1995-96, net debt will fall to around 7 per cent this year*

*the Government has repaid debt every year*

A surplus budget means the Government can reduce debt.

By the end of 2000-01, the Government will have slashed net debt by around \$50 billion since 1996-97.

The Government's surplus budgets have contributed around one-third to this reduction. The remainder has largely been the sale of equity in Telstra, where the proceeds have been used to retire our debt.

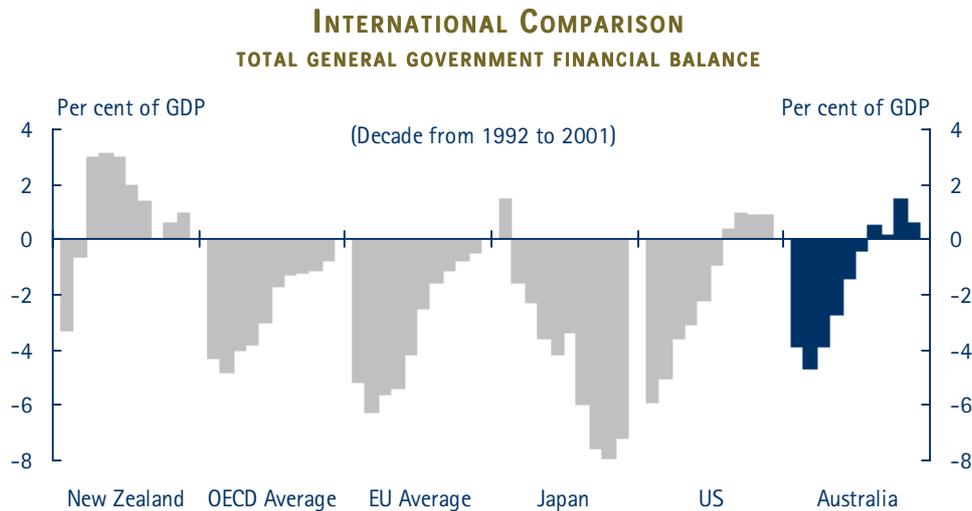
With the full sale of Telstra, Commonwealth net debt could be eliminated by 2003-04.

Running budget surpluses means the Government does not have to borrow to fund the budget. In fact, the Government has not borrowed a dollar, in net terms, since coming to office.

Australia's low net debt makes us well placed to respond to future fiscal challenges, such as the ageing of the population.

# International Comparisons

The Government's budget consolidation and debt reduction since 1996-97 has placed Australia in a strong fiscal position, particularly by international standards. Our government net debt is now among the lowest of any nation in the world and our fiscal outlook is among the strongest.



Australia is in a much stronger fiscal position than comparable countries.

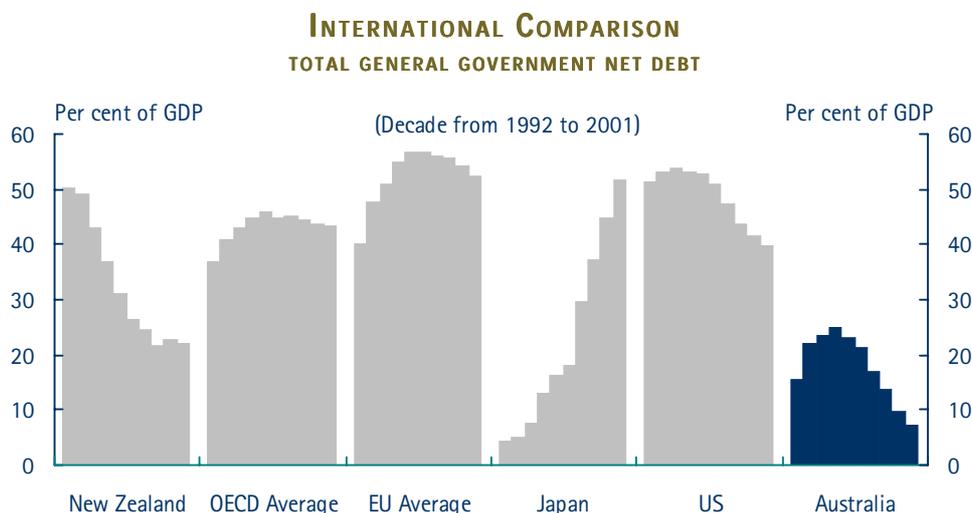
*Australia's public finances are in good shape*

The outlook indicates that Australia's whole of government net debt will continue to be among the lowest in the world.

In fact, it is expected to fall from around 25 per cent of GDP in 1995 to around 7½ per cent in 2001.

*Australia's net debt is currently less than one-quarter of that in the US and the OECD average*

In contrast, the OECD average debt to GDP ratio is projected to fall only from 45 per cent to 43½ per cent over this period.



# International Best Practice in Budgeting

The Government has introduced substantial reforms aimed at improving budget transparency and accountability. Australia's current fiscal policy framework, including the *Charter of Budget Honesty*, represents international best practice for responsible budget management. Building upon this was the introduction of accrual budgeting in the 1999-2000 Budget.

*“the Commonwealth Government has made considerable progress in putting fiscal policy on a sounder basis” (OECD, 1998)*

*“the Charter of Budget Honesty sets a high standard for fiscal transparency and accountability” (IMF, 1998)*

*“accrual budgeting more clearly links the total cost of resources used to the performance achieved” (US GAO, 2000)*

The Government's *Charter of Budget Honesty Act 1998* sets out in legislation clear rules for reporting and managing public finances in a responsible and open way.

The Charter represents international best practice for the transparent and stable conduct of fiscal policy and has been recognised as such by the OECD and IMF.

In fact, the IMF has used the Charter as the international model for promoting fiscal transparency.

Other countries have now followed the Commonwealth Government's lead and introduced their own codes for fiscal transparency, as have some Australian state governments.

The introduction of accrual budgeting has built upon this reform by providing more informative and transparent public accounts.

Accrual budgeting allows for a better assessment of value for money from government expenditure.

The 2000-01 Budget is the second Commonwealth budget to be brought down in the accrual framework.

Australia is only the third, and the largest, country in the world to have made this change. Other countries, including the US and the UK, are either in the process of moving to accrual budgeting or assessing its possible application.

# World Growth Continues to Strengthen

World economic growth strengthened in 1999 and the outlook is for further improvement in 2000 and 2001. This is due to continuing strong US growth and the recovery in crisis-affected Asian economies.

World growth is expected to be 4¼ per cent in 2000, above the long term average.

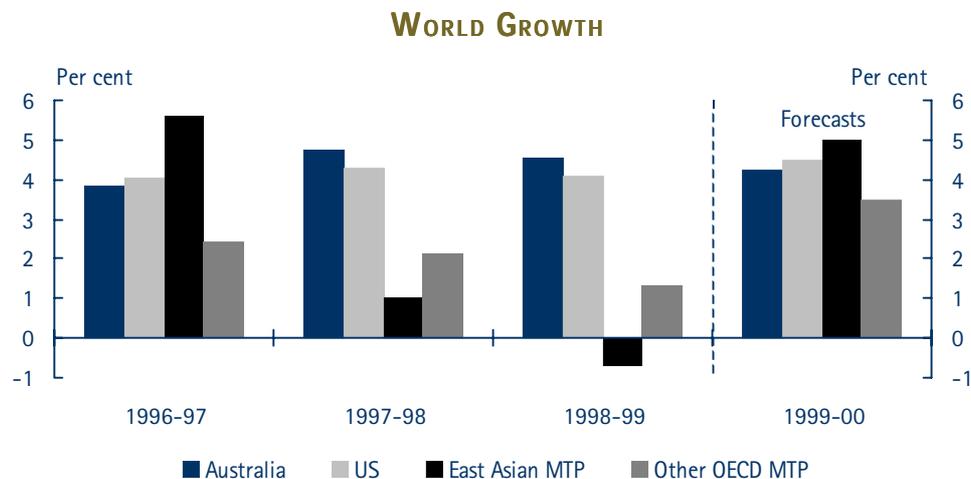
*stronger world growth is expected in 2000 and 2001*

This improvement reflects continued growth in the US and stronger growth in Europe and Asia, including Japan.

World growth is expected to moderate slightly in 2001, but remain strong.

Slower growth in the US economy is expected to be partly offset by stronger growth in Japan.

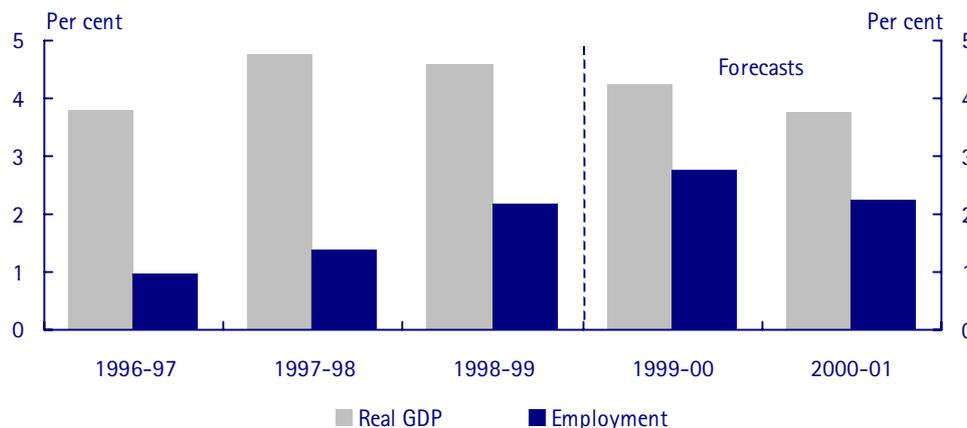
The economies of Europe and non-Japan East Asia are expected to maintain their recent growth momentum.



# Continued Strong Growth in Australia

In recent years, the Australian economy has achieved very strong growth, falling unemployment and low inflation. This impressive performance occurred in a climate where many of our Asian trading partners were in recession. With the Asian crisis largely behind us, world growth is strengthening. This will help Australia to prolong the current period of economic expansion well into the new decade.

**GROWTH IN GDP AND EMPLOYMENT**



*very strong economic growth has been maintained in 1999-2000*

The Australian economy is expected to grow by a strong 4¼ per cent in 1999-2000. The economy has now grown at or above an annual rate of 4 per cent for the past 11 consecutive quarters – an achievement unrivalled in the last 30 years.

*the Government's sound policy framework and structural reforms have played a major role*

Employment has grown rapidly and the unemployment rate has now fallen to around its lowest level in a decade.

*Australia's economic future looks very bright*

The inflation rate averaged around 2½ per cent in 1999-2000. Higher world oil prices raised petrol prices during the year.

*the outlook is for falling unemployment and low ongoing inflation*

Looking ahead, the Australian economy has the potential to grow at around 3½ to 4 per cent over the next few years. In 2000-01, growth is forecast to be a healthy 3¾ per cent.

Employment growth is set to continue, with the unemployment rate falling to 6¼ per cent by the June quarter 2001.

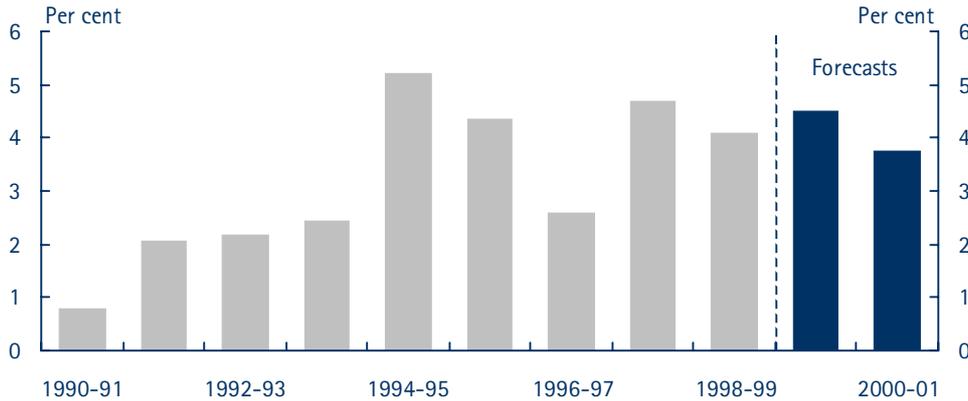
Ongoing inflation is expected to remain within the 2-3 per cent target band, leaving aside the one-off impact of *The New Tax System* on consumer prices.

For detailed forecasts see **Appendix C**.

# Household Consumption Moderates while Business Investment Rebounds

Strong growth in household consumption and housing investment in 1999-2000 is likely to moderate in 2000-01. Business investment is expected to rebound in 2000-01, boosted by improving world growth and the beneficial impact of tax reform.

## GROWTH IN HOUSEHOLD CONSUMPTION



Household consumption growth is expected to ease slightly in 2000-01, but remain strong at 3¾ per cent, boosted by tax cuts under *The New Tax System*.

*the tax cuts will provide a boost to household incomes in 2000-01*

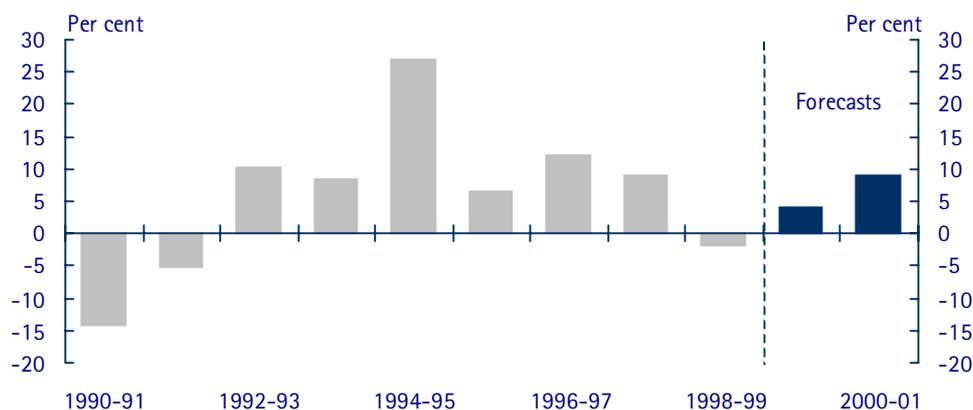
Dwelling investment is estimated to rise by 6 per cent in 1999-2000. After several years of strong growth, it is expected to be lower in 2000-01 but remain high as a share of GDP.

*dwelling investment forecast to ease in 2000-01 but remain high*

Business investment should grow by 5 per cent in 2000-01, a strong rebound from 1999-2000. A rise in export demand will boost plant and equipment investment, reinforced by lower business costs under tax reform and robust business profits.

*business investment expected to rebound strongly in 2000-01, boosted by lower business costs under The New Tax System*

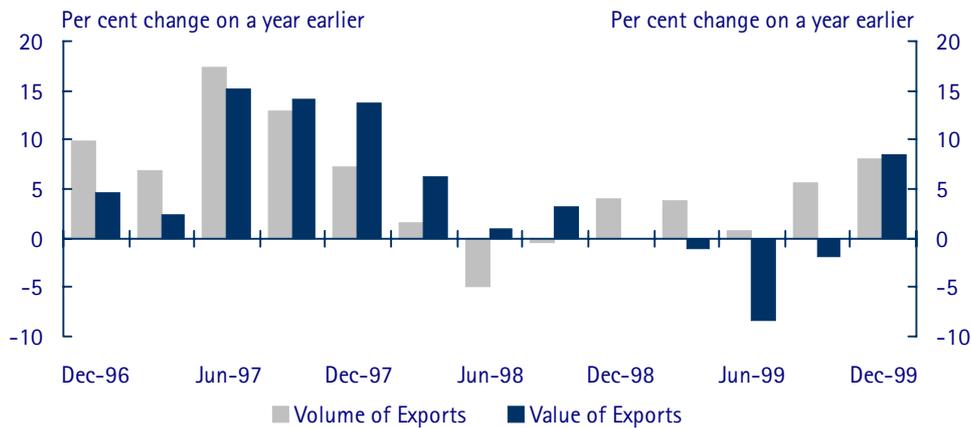
## GROWTH IN NEW PLANT AND EQUIPMENT



# Export Growth Strengthens

Strong growth in the world economy will boost overseas demand for Australian exports. The decline in Australia's exchange rate during 1999-2000 will also assist Australia's exporters next year.

## GROWTH IN EXPORTS



*strong export growth expected in 2000-01*

Export volumes are expected to grow by around 7 per cent in 2000-01 as the world economy continues to improve.

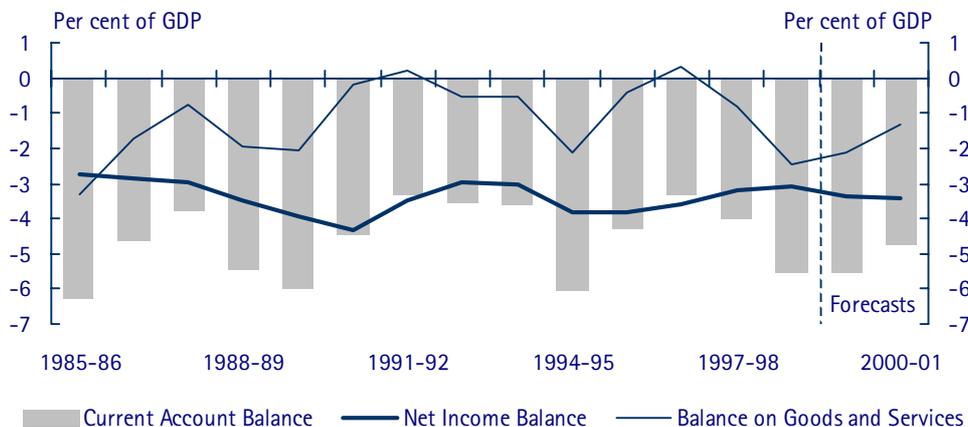
The decline in Australia's exchange rate during 1999-2000 will help exporters to increase their sales.

Export prices should rise in 2000-01 as stronger world growth boosts demand for Australia's commodity exports.

*strong exports and slower import growth mean the current account deficit is forecast to fall*

Stronger export growth, along with slower import growth means the current account deficit is expected to fall to around 4¾ per cent of GDP in 2000-01.

## CURRENT ACCOUNT BALANCE



# The Unemployment Rate Continues to Fall

Australia's extended period of rapid economic growth has been accompanied by strong growth in productivity and employment, moderate growth in real wages and low inflation. Strong employment growth has resulted in significant reductions in the unemployment rate. These trends are expected to continue in 2000-01.

Australia's strong growth has translated into robust employment growth and significant progress has been made in reducing the unemployment rate.

This has helped to distribute the benefits of economic growth across the community.

Since March 1996 the number of people employed has risen by over 660,000 or 8 per cent.

Over the same period, the unemployment rate has fallen from 8.5 per cent to 6.9 per cent in March 2000 – around its lowest rate in a decade.

Employment is likely to grow by 2¾ per cent in 1999-2000 and around 2¼ per cent in 2000-01.

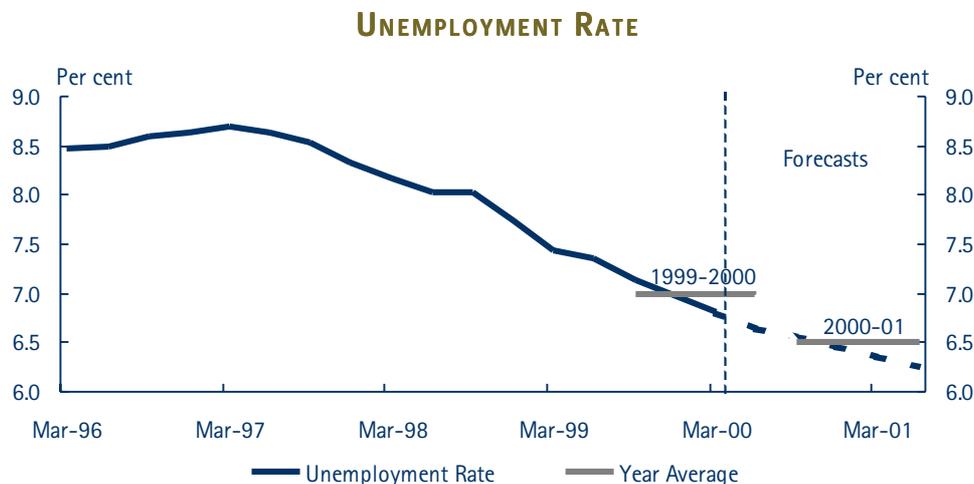
The unemployment rate is expected to fall to 6¾ per cent by mid-2000.

This downward trend is expected to continue in 2000-01, with the unemployment rate falling to around 6¼ per cent by mid-2001.

*Australia has recorded solid employment growth and a falling unemployment rate*

*the unemployment rate has fallen to around its lowest level in a decade*

*employment growth set to continue*



# Strong Economic Growth with Low Inflation

Healthy economic growth in 2000-01 is expected to be accompanied by low 'ongoing' inflation of around 2½ per cent.

## *inflation to remain low*

Inflation is forecast to be 2½ per cent in 1999-2000, up from the very low rate of only 1.2 per cent in 1998-1999. This reflects the sharp rise in world oil prices and recent increases in project home prices.

Excluding the one-off impact from *The New Tax System*, inflation is forecast to be around 2½ per cent during the year to the June quarter 2001.

## *changes to indirect tax arrangements will result in a one-off increase in overall prices in 2000-01*

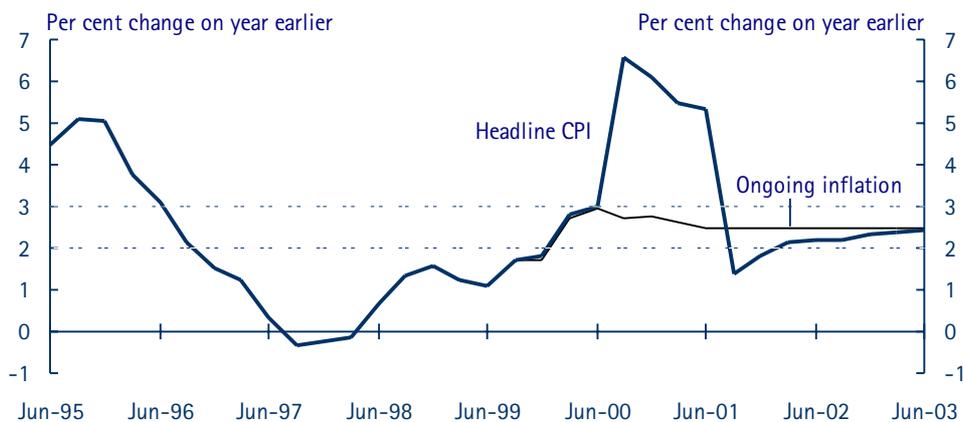
The main impact of indirect tax reform will occur in the September quarter of 2000, when the CPI is likely to increase by around 4½ per cent, of which a little over 3¾ per cent will be the initial indirect tax reform effect.

In later quarters, increases in the CPI will be smaller than would otherwise have been the case as the removal of wholesale sales tax and lower business costs flow through to lower prices.

## *tax cuts and increases in government benefits will more than compensate for the one-off price changes*

The overall increase in the consumer price index is expected to be around 5¼ per cent over the year to the June quarter 2001. This is made up of ongoing inflation of around 2½ per cent and a one-off impact of around 2¾ per cent on consumer prices as a result of indirect tax changes.

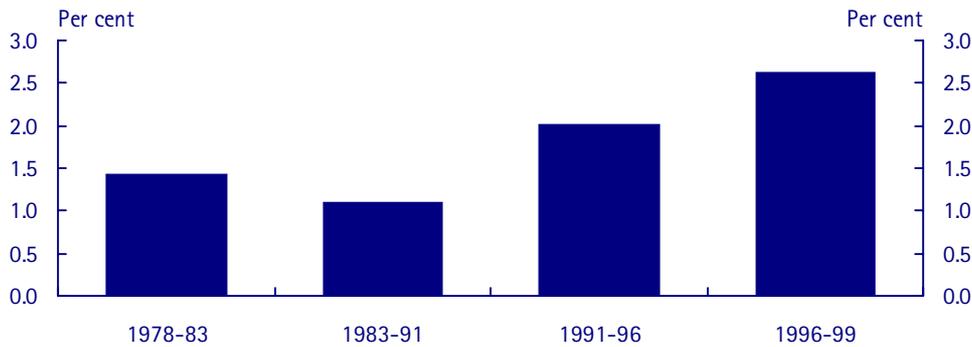
## INFLATION



# Maintaining Growth will Further Reduce Unemployment

Australia has the opportunity to prolong the current economic expansion and push unemployment to its lowest rate in a quarter of a century.

## A STEP UP IN PRODUCTIVITY GROWTH



The highly competitive environment in which *The New Tax System* is being introduced will ensure that price rises are not excessive and cost reductions are passed on to the community.

*competition will ensure that price rises are not excessive and cost savings are passed on*

The personal income tax cuts provided as part of the tax reform package will more than offset the price effects of the changes. As such, there is no need for employees to seek higher wage outcomes in response to the new indirect tax arrangements.

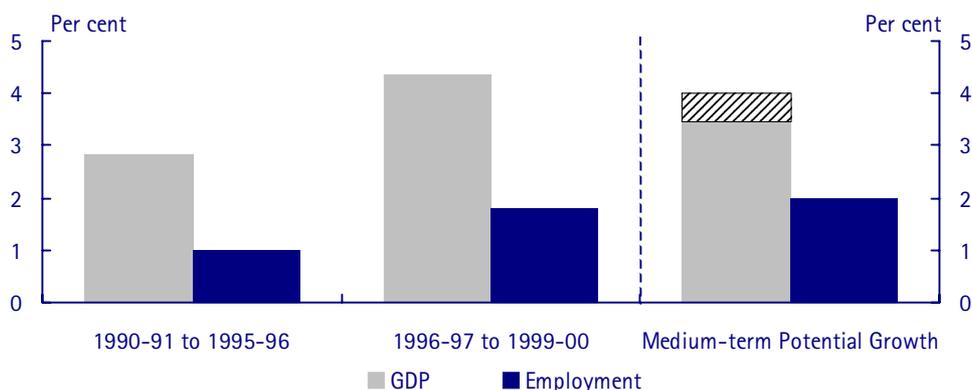
*the large income tax cuts mean there is no basis for seeking higher wages*

With ongoing inflation at low levels and economic reform leading to a step up in productivity growth, Australia has the opportunity to prolong the expansion and push unemployment to around its lowest rate in a quarter of a century.

*we have an opportunity to prolong the economic expansion and further reduce unemployment*

To grasp this opportunity will require maintaining the Government's policy framework and ongoing reform agenda.

## PROLONGING GROWTH AND INCREASING EMPLOYMENT



## Appendix A

# Commonwealth Budget Aggregates

The table below shows the main accrual and cash budget aggregates for 1998-99 to 2003-04 for the Commonwealth General Government sector.

### COMMONWEALTH GENERAL GOVERNMENT BUDGET AGGREGATES

	Actual	Estimates		Projections		
	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
<b>Revenue (\$b)</b>	151.9	164.7	153.5	158.6	168.3	180.5
Per cent of GDP	25.6	26.2	23.0	22.4	22.4	22.7
<b>Expenses (\$b)</b>	146.6	155.2	150.3	156.5	160.1	165.5
Per cent of GDP	24.7	24.7	22.5	22.1	21.3	20.8
Net operating balance (\$b)	5.3	9.4	3.2	2.1	8.2	15.0
Net capital investment (\$b)	1.4	-0.3	-2.2	1.0	0.6	1.1
<b>Fiscal balance (\$b)</b>	3.9	9.7	5.4	1.1	7.6	13.9
Per cent of GDP	0.7	1.5	0.8	0.2	1.0	1.7
<b>Underlying cash balance (\$b)</b>	4.2	7.8	2.8	3.2	8.8	14.4
Per cent of GDP	0.7	1.2	0.4	0.5	1.2	1.8
<i>Memorandum item:</i>						
Headline cash balance (\$b)	11.1	17.2	8.0	14.0	24.7	21.0

## Appendix B

# Spending Initiatives in the 2000-01 Budget

	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
<b>Supporting Rural and Regional Australia</b>				
Regional Health Package - More Doctors, Better Services				
New General Practitioner Registrars	10	21	32	40
Medical Training - Additional University Departments of Rural Health and Clinical Schools	9	25	38	46
Regional Health Services Expansion	5	14	22	28
Medical Specialist Outreach Assistance	5	14	15	15
More Allied Health Services	11	11	13	15
Bonded Scholarships for Medical Students to Practice in Rural Areas	3	6	10	13
Enhanced Rural and Remote Pharmacy Package	8	12	11	11
Other Regional Health Package Measures	18	23	28	33
Fuels Sales Grants Scheme	121	120	125	135
Continuation of the Agriculture Advancing Australia Package	38	74	91	107
Increase in Youth Allowance assets limits for farms and businesses	19	37	38	39
Regional Equalisation Plan for Digital Television(a)	-	-	0	0
Other Rural and Regional Measures	59	60	60	45
<b>Stronger Families and a Fairer Welfare System</b>				
Stronger Families and Communities Strategy	22	60	69	88
Child Support Package	2	23	21	22
Revised means test treatment of private trusts and private companies	29	-43	-140	-147
Compliance Strategy	-27	-55	-57	-32
Preparing for Work Agreements	-26	-60	-62	-64
<b>A Healthy Australia</b>				
FBT transitional grants for public and non-for-profit hospitals	88	81	72	-
Residential Aged Care Funding Equalisation and Assistance Package	10	30	46	33
Population health and safety measures	28	26	20	20
Pharmaceutical Benefits Scheme measures	10	-19	-48	-57
Veterans Home Care	6	-29	-15	-19
Vietnam Veterans' Health Study	9	8	8	8
<b>Advancing New Technology, Communications and the Arts</b>				
Implementing the National Biotechnology Strategy	0	9	10	10
Response to the Major Performing Arts Inquiry(b)	7	9	10	8
Digital Broadcasting - resourcing for digital equipment (capital)	38	10	4	-1
Continuation of resourcing for the Australian Film Finance Corporation	-	50	50	50
<b>Maintaining a Secure Australia</b>				
Achievement of improved submarine capability	128	-	-	-
Additional resourcing for logistic support and corporate management systems	80	-4	-4	-4
Increasing operational availability of Reserves	20	0	0	0
Sale of Defence property	-480	-8	-50	-3
Supplementation for commercial rents	-	20	21	21
Supplementation for purchase of Defence Housing Authority Services	69	69	68	69
<b>Strengthening Border Integrity and Rebuilding East Timor</b>				
Unauthorised Arrivals in Australia Package	24	10	8	8
Continued Australian Police presence in the UN Transitional Administration	25	26	26	27
Establishment of an ongoing East Timor Aid Programme(b)	25	25	25	25
<b>Other</b>				
Product stewardship arrangements for waste oil	25	25	24	24
Business Tax Reform	42	50	7	7
Commonwealth Heads of Government Meeting	16	16	-	-
Adelaide Airport noise amelioration	10	24	24	6
Employee Entitlements Support Scheme	55	40	40	-
<b>Other Measures</b>	<b>135</b>	<b>32</b>	<b>-11</b>	<b>-21</b>
<b>Total Impact of all Expense and Capital Measures</b>	<b>674</b>	<b>843</b>	<b>646</b>	<b>604</b>

(a) Total assistance under this measure is \$99.8 million over 4 years. Most of this assistance is licence fee rebates and will be shown as a Revenue measure.

(b) These figures do not include funding being reallocated from within the portfolio to these measures.

## Appendix C

# Detailed Economic Forecasts for 2000-01

	1998-99 (Outcomes)	1999-2000 (Estimates)	2000-01 (Forecasts)
<b>Demand and Output(a)</b>			
Household consumption	4.1	4 1/2	3 3/4
Private investment			
Dwellings	8.5	6	-3
Total business investment	1.8	2	5
Other buildings and structures	1.5	-12	-9
Machinery and equipment	-2.4	3	9
Public final demand	5.2	5	2 1/2
Change in inventories(b)			
Private non-farm	0.8	- 1/4	0
Farm and public authorities	-0.2	0	- 1/4
Gross national expenditure	4.8	4 1/4	3
Exports of goods and services	2.0	9	7
Imports of goods and services	4.9	10	4
Net exports(b)	-0.6	- 1/2	3/4
<b>Gross Domestic Product</b>	4.6	4 1/4	3 3/4
Non-farm product	4.3	4 1/4	3 3/4
Farm product	10.6	3	1
<b>Other Selected Economic Measures</b>			
Prices and wages			
Consumer price index	1.2	2 1/2	5 3/4
Consumer price index - through the year	1.1	3	5 1/4
Average earnings(c)	4.1	3	4 1/4
Labour market			
Employment	2.2	2 3/4	2 1/4
Unemployment rate (per cent)	7.6	7	6 1/2
External accounts			
Terms of trade	-5.2	3 1/2	1/4
Current account balance			
\$ billion	-32.8	-33 1/2	-31 1/2
Percentage of GDP	-5.5	-5 1/2	-4 3/4

(a) Chain volume measures. Percentage change on preceding year, unless otherwise stated.

(b) Percentage point contribution to growth in GDP.

(c) Average non-farm compensation of employees (National Accounts basis).

## Appendix D

# Historical Budget and Net Debt Data

This appendix provides historical data and forward estimates for Commonwealth general government outlays, revenue, cash surplus and net debt. The table below provides details of the cash budget aggregates for the period 1974-75 to 2003-04. Due to a break in the series following the introduction of new accrual accounting standards, outlays and revenue data from 1999-2000 are not directly comparable with earlier years.

### COMMONWEALTH GENERAL GOVERNMENT BUDGET AND NET DEBT DATA

	Revenue		Outlays		Cash Surplus		Net Debt	
	Estimate \$m	Per cent of GDP						
1974-75	15325	22.9	15275	22.8	50	0.1	-1901	-2.8
1975-76	18316	23.2	19876	25.1	-1560	-2.0	-341	-0.4
1976-77	21418	23.5	22657	24.9	-1239	-1.4	898	1.0
1977-78	23491	23.6	25489	25.6	-1998	-2.0	2896	2.9
1978-79	25666	22.8	27753	24.6	-2087	-1.9	4983	4.4
1979-80	29780	23.2	31041	24.2	-1261	-1.0	6244	4.9
1980-81	35148	24.2	35260	24.3	-112	-0.1	6356	4.4
1981-82	40831	24.5	40394	24.3	437	0.3	5919	3.6
1982-83	44675	24.8	47907	26.6	-3232	-1.8	9151	5.1
1983-84	49102	24.2	55966	27.6	-6864	-3.4	16015	7.9
1984-85	57758	25.7	63639	28.3	-5881	-2.6	21896	9.7
1985-86	64845	26.1	69838	28.1	-4993	-2.0	26889	10.8
1986-87	73145	26.8	75392	27.7	-2247	-0.8	29136	10.7
1987-88	81217	26.1	79440	25.6	1777	0.6	27359	8.8
1988-89	88369	25.1	82202	23.4	6167	1.8	21982	6.2
1989-90	95517	24.8	88882	23.1	6635	1.7	16121	4.2
1990-91	97705	24.6	97333	24.5	372	0.1	16936	4.3
1991-92	92966	22.9	104551	25.7	-11585	-2.9	31132	7.7
1992-93	94448	22.1	111484	26.1	-17036	-4.0	55218	12.9
1993-94	100142	22.3	117252	26.1	-17110	-3.8	70223	15.6
1994-95	109720	23.1	122901	25.9	-13181	-2.8	83492	17.6
1995-96	121105	23.8	131182	25.8	-10077	-2.0	95831	18.9
1996-97	129845	24.3	135126	25.3	-5281	-1.0	96281	18.0
1997-98	135779	24.0	134608	23.8	1171	0.2	82935	14.7
1998-99	146521	24.7	141033	23.8	4190	0.7	70402	11.9
1999-00 (e)	163726	26.1	155930	24.8	7795	1.2	56346	9.0
2000-01 (e)	153803	23.0	150959	22.6	2844	0.4	47404	7.1
2001-02 (p)	160205	22.6	156994	22.2	3211	0.5	34650	4.9
2002-03 (p)	169598	22.6	160817	21.4	8781	1.2	9157	1.2
2003-04 (p)	180133	22.6	165704	20.8	14429	1.8	-11908	-1.5

(e) estimate (p) projection

## Appendix E

# Glossary

Accrual	The accounting basis whereby items are brought to account as they are earned or incurred (and not as cash is received or paid).
Assets	Future economic benefits controlled by an entity as a result of past transactions or events.
Commonwealth	Refers to the Commonwealth General Government Sector (unless stated otherwise).
CAD	Current Account Deficit.
CPI	Consumer Price Index.
European Union (EU)	EU economies are Germany, France, the United Kingdom, Italy, Belgium, the Netherlands, Greece, Denmark, Sweden, Luxembourg, Austria, Spain, Portugal, Finland and Ireland.
Expenses	Consumption or losses of future economic benefits in the form of reductions in assets or increases in liabilities.
Fiscal balance	The difference between government saving and investment. It measures net lending or the government's net call on other sectors in the economy, and so corresponds to the government's direct contribution to the external current account balance.
GAO	General Accounting Office of the United States.
GDP	Gross Domestic Product.
General government	Resident public entities that are mainly engaged in the production of goods and services outside the normal market mechanism for consumption by governments and the general public. Costs of production are mainly financed from public tax revenues. Goods and services are provided free of charge or at nominal charges well below the costs of production.
GFS	Government Finance Statistics.
Headline cash balance	Total cash outlays less total cash receipts, equating to the net annual financing task of the government.
IMF	International Monetary Fund.
Liabilities	Future sacrifices of economic benefits that an entity is presently obliged to make to other entities as a result of past transactions or events.
MTP	Major Trading Partner.
Net assets	The residual interest in the assets of a reporting entity after the deduction of its liabilities.
Net debt	The difference between gross debt and financial assets.
Net operating balance	The balance of the GFS operating statement. It is defined as the increase in net assets (or worth) less the effects of revaluations.
Non-Japan East Asia	Non-Japan East Asia economies are Korea, Singapore, Taiwan, Hong Kong, China, Indonesia, Malaysia, Thailand and the Philippines.
OECD	Organisation for Economic Co-operation and Development.
Revenue	Increases in future economic benefits in the form of increases in assets or reductions in liabilities of a reporting entity.
Underlying cash balance	The headline cash balance less net advances (which include net acquisitions or sales of equity as well as other government lending for policy purposes).