

STATEMENT 1 — FISCAL STRATEGY

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STATEMENT 1 — FISCAL STRATEGY

PART I: BUDGET AGGREGATES

The 1998-99 Budget fulfils the Government's commitment to return the underlying budget¹ to surplus within its first term of office. This return to underlying surplus is a significant milestone in the Government's medium-term fiscal strategy of maintaining the underlying budget in balance, on average, over the course of the economic cycle.

- In 1998-99, the underlying budget balance is estimated to be in surplus by \$2.7 billion, or 0.5 per cent of Gross Domestic Product (GDP). This is an improvement of \$3.8 billion, or 0.7 per cent of GDP, on the expected outcome for 1997-98.
- In 1999-2000, the underlying surplus is projected to be \$4.7 billion, or 0.8 per cent of GDP. Increasing underlying surpluses are projected beyond 1999-2000.

The underlying deficit in 1997-98 is now expected to be \$1.2 billion, or 0.2 per cent of GDP. This improvement reflects both stronger than expected revenue collections and lower underlying outlays than forecast in last year's Budget.

The budget aggregates for 1996-97 to 2001-02 are shown in Table 1 below.

Table 1: Summary of Budget Aggregates

	1996-97	1997-98		1998-99	1999-00	2000-01	2001-02
	Actual	Budget	Revised	Estimate	Projection	Projection	Projection
Revenue (\$m)	131031	133351	135448	144258	151299	160200	171096
<i>Per cent of GDP</i>	25.4	24.5	24.9	25.0	24.7	24.7	24.9
Underlying Outlays (\$m)	135933	137204	136603	141570	146566	151586	156508
<i>Per cent of GDP</i>	26.3	25.2	25.1	24.6	24.0	23.4	22.8
Underlying Balance (\$m)	-4902	-3853	-1155	2688	4733	8614	14588
<i>Per cent of GDP</i>	-0.9	-0.7	-0.2	0.5	0.8	1.3	2.1
<i>Memorandum items:</i>							
Net advances (\$m)	-7452	-10276	-13920	-16027	-18772	-12856	455
Headline balance (\$m)	2550	6423	12765	18715	23505	21470	14133
<i>Per cent of GDP</i>	0.5	1.2	2.3	3.2	3.8	3.3	2.1

The expected underlying surplus in 1998-99 represents a significant turnaround of \$13 billion from the \$10.3 billion underlying deficit outcome in 1995-96. This represents a turnaround of just over 2½ per cent of GDP from the outcome inherited from the previous Government, with further improvements projected in the outyears.

¹ The underlying budget balance is measured as revenue less underlying outlays (defined as outlays excluding net advances). Net advances consist of net policy lending (new policy lending less repayment of past policy lending) and net equity transactions (equity injections/purchases less equity sales).

Large headline budget surpluses are expected in 1998-99 and over the forward estimates period. These reflect both underlying surpluses in prospect and expected receipts of equity asset sale proceeds, primarily associated with the sale of the Government's remaining equity in Telstra.

Increasing national saving — through higher public saving — and debt reduction remain key priorities for the Government. The relevance of these aims is reinforced by the uncertainties surrounding the international economic environment and the related widening in Australia's external current account deficit.

- The underlying surplus in 1998-99 — the first since 1990-91 — ensures that the Commonwealth Government, through its own budget, will save more than enough to meet its own investment needs. It will therefore no longer need to draw on private saving and is expected to become a significant net lender to the private sector in the outyears. This should help to moderate pressures on the current account deficit.
- The fiscal outlook is also consistent with the Government's objective of halving the ratio of Commonwealth general government net debt to GDP by the turn of the century. Even without the further sale of Telstra, this objective would have been reached on latest projections. However, it will now be comfortably exceeded, with net debt falling from around 20 per cent of GDP in 1995-96 to around 1½ per cent of GDP by 2001-02.

Underlying outlays have declined substantially as a share of GDP in recent years and further declines are estimated in 1998-99 and over the forward estimates period. By 2001-02, underlying outlays are projected to be around 23 per cent of GDP compared with almost 27 per cent of GDP in 1995-96. Revenues are expected to remain broadly unchanged as a share of GDP from levels of just under 25 per cent of GDP in 1995-96. These movements are consistent with the Government's commitment that fiscal consolidation be achieved primarily through outlays restraint.

Table 2 provides a reconciliation of the budget and forward estimates for the period from the 1997-98 Budget to the 1998-99 Budget, including the 1997-98 Mid Year Economic and Fiscal Outlook (MYEFO), identifying the effects of policy decisions and parameter and other variations.

The 1997-98 MYEFO reported an improved fiscal outlook for 1997-98 and 1998-99 and a slight deterioration in 1999-2000 and 2000-01 relative to the estimates published in the 1997-98 Budget. Reduced underlying outlays — reflecting an improved outlook for inflation and lower public debt interest payments — accounted for the bulk of the improvement in 1998-99.

Table 2: Reconciliation of 1997-98 Budget, MYEFO and 1998-99 Budget Estimates^(a)

	1997-98 \$m	1998-99 \$m	1999-00 \$m	2000-01 \$m
1997-98 Budget underlying balance estimate (per cent of GDP)	-3853 -0.7	1597 0.3	5383 0.9	10692 1.6
Changes between 1997-98 Budget and MYEFO				
Effect of reclassifications	-46	-11	0	0
Effect of parameter and other variations				
Underlying outlays	-203	-1127	-416	-642
Revenue	1250	362	45	528
Total	-1453	-1489	-461	-1170
Effect of policy decisions				
Underlying outlays(b)	395	566	733	1242
Revenue	3	-73	-113	-244
Total	392	639	846	1486
1997-98 MYEFO underlying balance estimate	-2746	2458	4998	10375
Changes between MYEFO and 1998-99 Budget				
Effect of reclassifications	20	-58	5	5
Effect of parameter and other variations				
Underlying Outlays	-924	29	-229	900
Revenue	839	1480	992	1322
Total	-1762	-1450	-1221	-423
Effect of policy decisions				
Underlying outlays(b)	156	1385	1526	1862
Revenue	5	106	44	-317
Total	152	1279	1481	2180
1998-99 Budget underlying balance estimate (per cent of GDP)	-1155 -0.2	2688 0.5	4733 0.8	8614 1.3

(a) A negative figure for revenue indicates a deterioration in the budget balance. For all other items a negative figure indicates an improvement in the budget balance.

(b) Includes the public debt interest impact of underlying policy decisions. A separate breakdown of policy decisions and their impact on public debt interest can be found in Table 6 in Statement 2.

The starting point² underlying budget balances have improved in all years since the MYEFO. A significant factor is higher other individual tax collections to date strengthening the revenue base and flowing through into an improved revenue outlook. In 1998-99, an upward revision to non-tax revenues also contributes to the improved starting point balance. By 2000-01, higher underlying outlays — largely reflecting upward revisions to programme specific parameters — provide a significant offset.

In net terms, policy decisions since the MYEFO detract from the starting point underlying surpluses.

² Starting point estimates include parameter and other variations since the 1997-98 Budget and policy decisions taken prior to the MYEFO. They exclude the impact of decisions taken by the Government since the MYEFO.

- Net outlays policy measures³ — including funding for high priority areas such as aged care, health, education, training and youth — amounting to around \$1.4 billion in 1998-99 and rising to \$1.5 billion in 1999-2000 and \$1.9 billion in 2000-01 have been announced since the MYEFO.
- Revenue policy measures, in net terms, are expected to raise \$0.1 billion in 1998-99. This principally reflects additional revenues expected from the continuation of the Australian Taxation Office's High Wealth Individuals Taskforce. In 2000-01, revenue policy decisions are expected to reduce revenue by \$0.3 billion on account of revised arrangements relating to the taxation treatment of Year 2000 compliance and computer software expenditure.

A more detailed discussion of the implications of changes in the economic outlook, other estimate variations and policy decisions is included in Part II of Statement 2. Further details on individual policy decisions taken since the MYEFO are included in *Budget Paper No. 2*.

³ Includes the public debt interest impact of underlying policy decisions.

PART II: ECONOMIC FRAMEWORK

Recent economic events in East Asia, including Japan, heavily condition the economic framework for this year's Budget. These events will affect Australia's short-term economic prospects but, more importantly, they demonstrate the importance of sound economic fundamentals and policy settings.

Policy shortcomings were at the root of the difficulties faced by a number of the Asian economies in the past year which, in Japan's case, resulted in sluggish growth over a longer period. In contrast, Australia is weathering the 'crisis' in Asia because of its sound economic fundamentals, including low inflation, rigorous pursuit of the commitment to return the budget to underlying surplus, a healthy financial sector and ongoing microeconomic and regulatory reform. Economic policy is aimed at improving these fundamentals. For this reason the overall outlook for the Australian economy remains favourable, with ongoing solid growth, low inflation and further reductions in unemployment, continuing the economic growth that commenced after the recession in the early 1990s.

The Australian economy experienced strong growth in private sector demand over the course of 1997, supported by low interest rates, low inflation, high corporate profits, a strengthening in the labour market and a pick-up in housing. The momentum of this growth in domestic demand appears to have been maintained in the first half of 1998 and is expected to carry through into 1998-99. The overall pace of economic activity in 1998-99 will depend on the extent to which the impact of the significant slowdown in some of Australia's trading partners offsets the strong growth in domestic demand.

As discussed in Statement 2, the Asian downturn is likely to dampen demand for Australia's exports, particularly for tourism, some other services and elaborately transformed manufactures. However, there are factors likely to cushion the overall impact on Australia's exports. For instance, there has not been a close relationship between economic growth in specific markets and Australia's overall export performance. The volume of Australia's commodity exports — which account for the bulk of total exports — is mainly determined by the amount produced. Changes in overseas market conditions predominantly affect commodity prices, but in this respect the main influence is world industrial production rather than conditions in individual markets. For this reason, the continuing strong growth in the United States and the strengthening in Europe are significant to Australia's export prospects. Some diversion of Australian exports away from the Asian economies most affected by the crisis has occurred, not only for commodities but also for manufactures and services, and this is expected to continue. It is also relevant that in recent years Australia's fastest growing export markets have not been in East Asia, but countries such as India, New Zealand, the Middle East and South Africa. In addition, exchange rate movements have cushioned the effect of lower world prices for Australian exports on domestic incomes as well as improving the competitiveness of Australia's exports and import competing industries.

While the impact of events in East Asia on Australia's export prospects needs to be kept in perspective, the significant slowdown in some of Australia's major trading partners in the region will progressively affect Australia's exports over the course of 1998. This adverse impact will vary across export categories. The strong growth in domestic demand should, nevertheless, provide considerable support for economic activity.

Overall, while the pace of economic growth will slow in 1998-99 compared with 1997-98, Australia is still expected to be one of the fastest growing OECD economies. The uncertain nature of international events, including the pace of recovery in Japan, poses considerable risks to the outlook.

Strong growth in domestic demand and slower growth in exports will result in a rise in Australia's current account deficit in 1998-99. However, as discussed in Statement 3, the increase in the current account deficit will be largely cyclical and reflect the saving and investment decisions of the private sector, not the fiscal position of the Commonwealth. Part III of this Statement provides further details on the implications of the Commonwealth's strong fiscal position for national saving and net lending.

In addition, unlike the late 1980s, when a rising current account deficit and rising inflationary pressure were symptoms of unsustainably strong growth in domestic demand, the outlook is for continued low inflation, indicating that demand growth is sustainable on this occasion. The underlying inflation rate is expected to rise in 1998-99, but remain within the target range agreed between the Government and the Reserve Bank. The expected rise in inflation largely reflects the impact of the recent modest decline in the nominal exchange rate against the US dollar and major European currencies. It does not reflect wage and price pressures flowing from excessive domestic demand growth. Long-term nominal interest rates in Australia are now very close to those in the United States, indicating that financial markets are confident that inflation will remain low over the medium to long term.

The investment environment in Australia is favourable, with the benefits of low inflation, relatively low real interest rates and microeconomic reform increasingly manifesting themselves in strong growth in investment. The increase in the capital stock is contributing to an improved productivity performance and is raising the economy's capacity to service the financing costs associated with Australia's foreign liabilities.

The events in East Asia demonstrate that an economy is always exposed to adverse external developments. The ability of the Australian economy to adjust to such developments has, however, improved as a result of the Government's microeconomic reforms. Increased competition in product and financial markets combined with labour market reforms has enhanced the competitiveness of Australian firms and their capacity to respond to rapidly changing demand and supply conditions. Indeed, the Asian crisis underscores the importance of minimising artificial distortions in the operation of competitive product, labour and financial markets. It also highlights the importance of sound prudential regulation of financial institutions, sound corporate governance arrangements, and relevant and transparent financial reporting requirements. These are priority areas of the Government's reform programme.

The Government's overriding policy priority is the achievement of maximum sustainable rates of economic growth and rising living standards including via reductions in unemployment. This will require maintaining the current medium-term macroeconomic policy framework and pressing ahead with microeconomic reform, including reform of the taxation system, the labour market, the financial system and corporate law. The 1998-99 Budget forms an integral part of meeting these challenges as it consolidates the recent gains made in improving Commonwealth finances and reinforces the Government's medium-term fiscal strategy.

PART III: FISCAL STRATEGY

The Government has adopted a medium-term fiscal strategy of pursuing, as a guiding principle, the objective of underlying budget balance, on average, over the course of the economic cycle. As was the case with the 1996-97 and 1997-98 Budgets, the 1998-99 Budget has been framed against the Government's ongoing commitment to this medium-term strategy.

The primary objective of the Government's medium-term fiscal strategy is to ensure that, over time, the Commonwealth budget makes no overall call on private sector saving and therefore does not detract from national saving. This aims to ensure fiscal settings are sustainable and help promote longer-term growth prospects by reducing Australia's vulnerability to external shocks and allowing greater flexibility for fiscal settings to adjust to changing economic conditions.

The Government has implemented a substantial programme of fiscal consolidation since its election. This has been integral to the establishment of the strong macroeconomic environment now in place — with low interest rates and continued solid economic growth prospects.

BOX 1: MEDIUM-TERM FISCAL OBJECTIVE

The Government's basic medium-term fiscal objective is to achieve underlying budget balance, on average, over the course of the economic cycle. Consistent with this medium-term objective, the fiscal strategy adopted by the Government in framing its 1998-99 Budget is centred on:

- returning the underlying budget to surplus in the life of this Parliament;
- maintaining surpluses over the forward estimates period while economic growth prospects remain sound;
- halving the ratio of Commonwealth general government net debt to GDP from 20 per cent in 1995-96 to 10 per cent by the turn of the century;
- maintaining its commitment not to introduce new taxes or raise existing taxes over the term of this Parliament, while seeking to ensure that all taxpayers pay their fair share of taxes; and
- directing sufficient resources to high priority areas, while significantly reducing the ratio of outlays to GDP through to the turn of the century.

The benefits flowing from the Government's fiscal strategy are illustrated by the reduction in the exposure of the Australian economy to international uncertainty at a time of unsettling developments in the Asian region. The Government's fiscal strategy and the strength of the fiscal outlook have been important in sustaining financial market confidence and shielding Australia from the instability experienced in some Asian

countries. These developments underscore the continuing need to operate prudent fiscal policy and maintain a strong fiscal position.

Consistent with the medium-term fiscal objective, the Government has set itself a number of associated targets which have helped shape the 1998-99 Budget (see Box 1).

These fiscal objectives and targets are consistent with the requirements of the Charter of Budget Honesty. The Charter represents a major reform of the framework for setting and reporting on fiscal policy and has helped to build Australia's fiscal policy credibility. The Charter is at the forefront of international best practice and will help ensure that all future governments maintain responsible and sustainable fiscal policies in the medium term. This reflects the requirement, in particular, for governments to determine their fiscal objectives with regard to the Charter's principles of sound fiscal management and report regularly on their progress in achieving them (see Box 2).

BOX 2: THE CHARTER OF BUDGET HONESTY

The Charter of Budget Honesty, which has recently passed through the Parliament, aims to improve fiscal outcomes by enhancing the transparency of, and accountability for, fiscal policy. In particular, it requires governments to set out their medium-term fiscal strategy in each budget, along with their shorter-term fiscal objectives and targets. It also provides for full economic and fiscal outlook reports at the time of the budget, at mid-year, and prior to elections. In addition, the Charter sets out arrangements for the costing of election commitments by the Government and the Opposition.

Under the terms of the Charter, the fiscal strategy must be based on principles of sound fiscal management which require governments to:

- ensure that fiscal policy contributes to achieving adequate national saving and to moderating cyclical fluctuations in economic activity, as appropriate, taking account of the economic risks facing the nation and the impact of those risks on governments' fiscal positions;
- manage financial risks faced by the Commonwealth prudently, having regard to economic circumstances, including by maintaining Commonwealth general government debt at prudent levels;
- pursue spending and taxing policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden;
- maintain the integrity of the tax system; and
- ensure that policy decisions have regard to their financial effects on future generations.

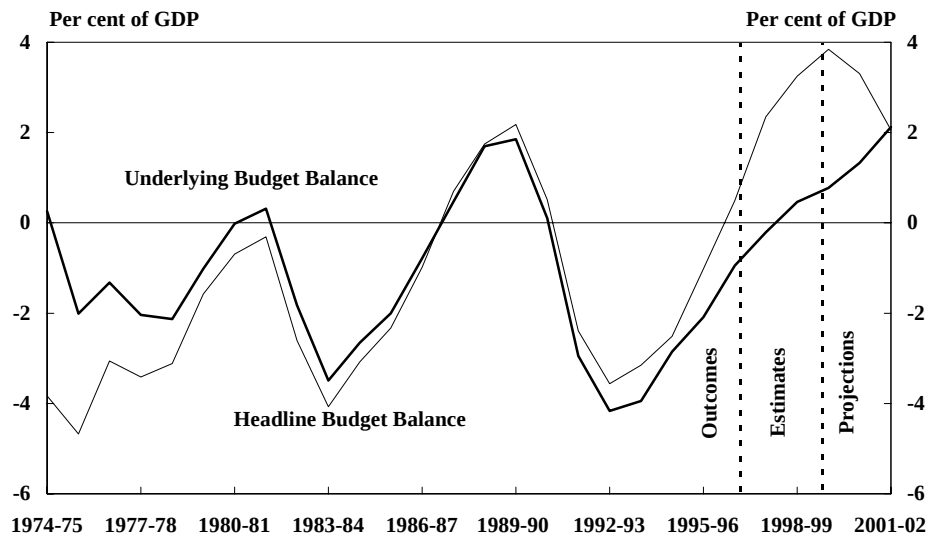
The Government's fiscal objectives and targets accord with these requirements.

BUDGET SURPLUS AND NATIONAL SAVING

A key feature of the Government's 1998-99 Budget strategy is the achievement of underlying surplus in 1998-99 and the maintenance of surpluses over the forward estimates period (Chart 1). This is appropriate given that Australia has now experienced several years of solid growth. The medium-term fiscal strategy requires the Government to run surpluses during periods of relatively strong economic growth, so that deficits which emerge during periods of significant weakness are manageable.

The surpluses in 1998-99 and in prospect over the forward estimates period reflect the programme of fiscal consolidation implemented by the Government since 1996-97.

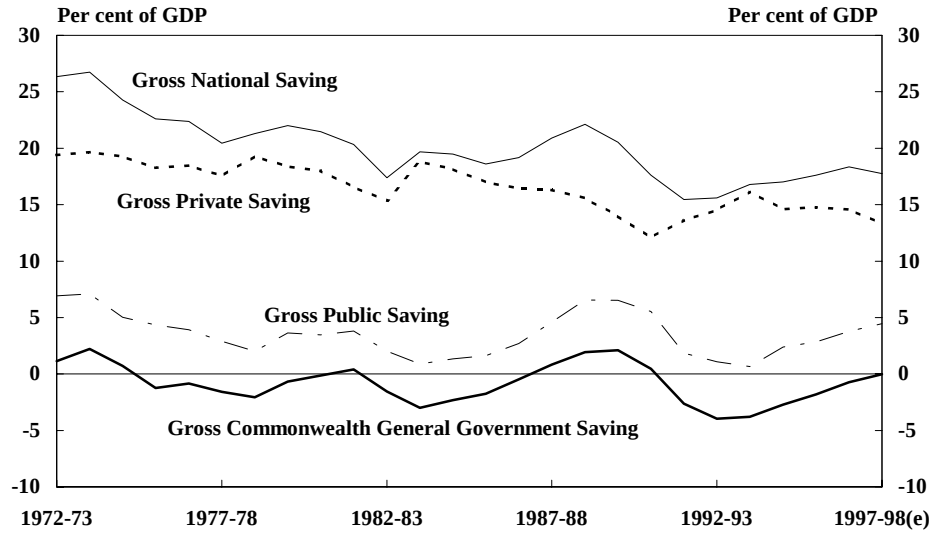
Chart 1: Headline and Underlying Budget Balance



The underlying budget balance closely approximates the contribution of the Commonwealth budget to national net lending — the difference between national saving and investment. As shown in Chart 2, improvements in the underlying budget balance as a result of the Government's programme of fiscal consolidation have been associated with increases in Commonwealth general government saving and public saving over the past two years. These increases have helped maintain overall national saving during a period of declining private saving.

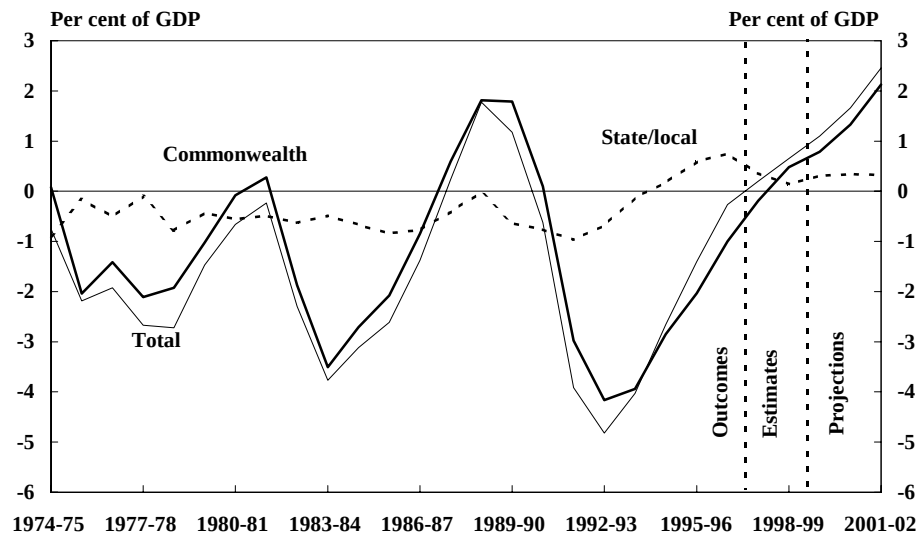
The move into underlying surplus in 1998-99 means that the Commonwealth will not need to draw on the available pool of private saving; instead, it will become a net lender — adding to the pool of private savings available to fund private investment, without recourse to foreign savings. Moreover, its contribution to national net lending is expected to increase over the forward estimates period. With the State/local general government sector and the Public Trading Enterprise (PTE) sector also expected to be in underlying surplus over the forward estimates period (see Chart 3), both the Commonwealth and public sector as a whole should contribute to reducing the current account deficit over time. Projected developments in the State/local general government and PTE sectors are discussed in detail in Statement 7.

Chart 2: Public, Private and National Saving



(e) Treasury estimate.

Chart 3: General Government Underlying Balance

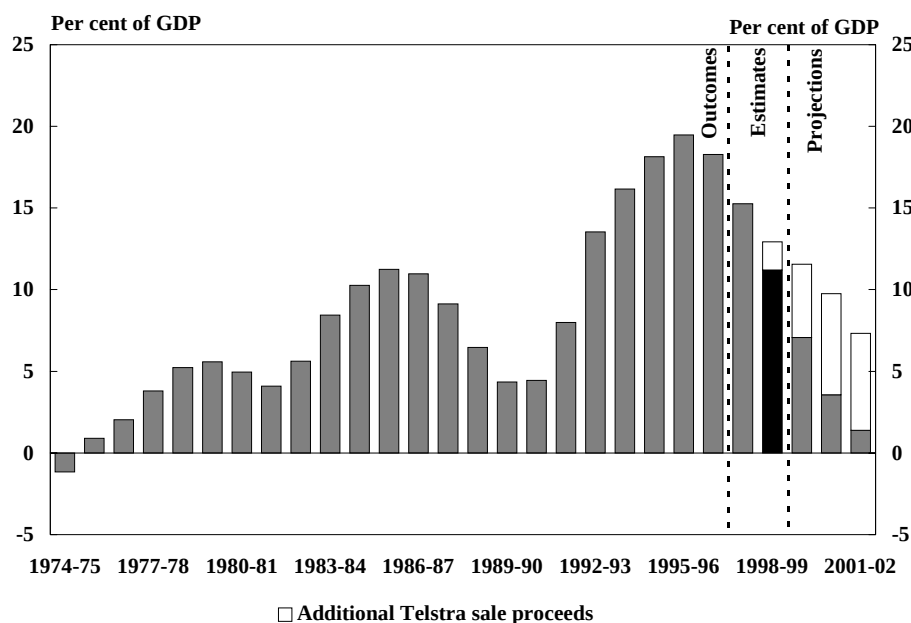


REDUCING NET DEBT

The Government's fiscal strategy has been instrumental in improving the Commonwealth's net debt⁴ position, with the stock of Commonwealth general government net debt falling in 1996-97 for the first time since 1989-90.

The underlying budget surpluses in prospect — together with additional asset sale proceeds, notably those from the sale of the Government's remaining equity in Telstra — provide for further significant reductions in net debt over the forward estimates period. As shown in Chart 4, on current projections, the Government's objective of halving the ratio of Commonwealth general government net debt to GDP by the turn of the century would be met in the absence of the further sale of Telstra equity. Taking into account the sale of Telstra equity the objective is expected to be exceeded by a considerable margin. Based on current projections, Commonwealth general government net debt is projected to decline to around 1½ per cent of GDP by 2001-02. This is to levels not achieved since the mid-1970s.

Chart 4: Commonwealth General Government Net Debt^(a)



(a) Figures are for net debt stocks as at the end of each financial year. Data for 1987-88 to 1996-97 are from ABS *Public Sector Financial Assets and Liabilities* (Cat. No. 5513.0). Data for the years prior to 1987-88 and the years following 1996-97 are Treasury estimates. Estimates underpinning this chart are provided in Table D3 in Appendix D of Statement 2.

Reductions in net debt levels help reduce Australia's vulnerability to economic shocks — such as those posed by recent developments in Asia — and are important in ensuring that the economy is better placed to cope with emerging pressures on the fiscal position such

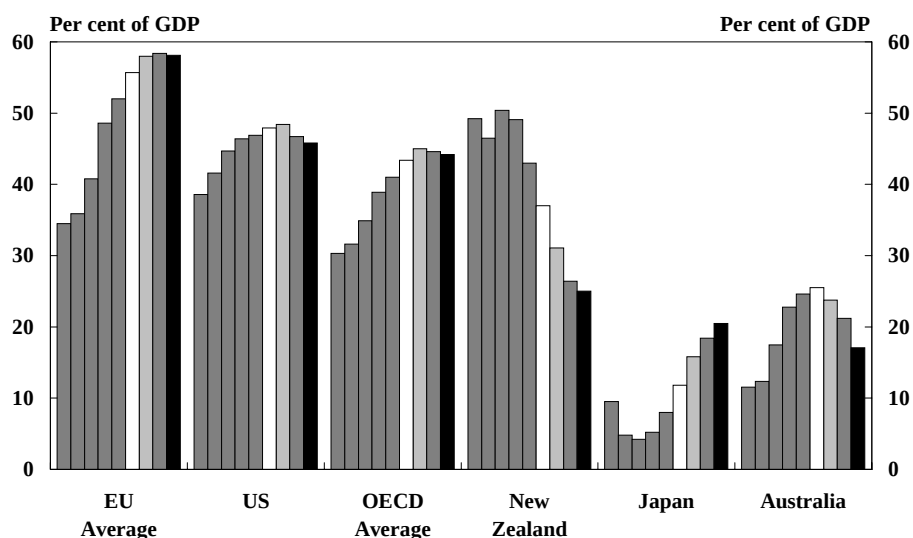
4 Net debt is defined as selected financial liabilities (deposits held, advances received and borrowing) less selected financial assets (cash and deposits, advances paid and investments). See Australian Bureau of Statistics *Government Finance Statistics Concepts, Sources and Methods* publication for more detail.

as ageing of the population. They should also help ensure that the burden of the cost of services enjoyed by the current generation is not transferred to future generations.

Chart 5 shows that as a result of improvements in both the Commonwealth and State/local net debt positions, total general government net debt for Australia compares favourably with that of other OECD countries and the OECD average. While Australia's position is well below the OECD average, many other OECD countries have had weak fiscal positions and face the prospect of major ongoing fiscal consolidation tasks. In addition, some other countries have the benefit of strong private sector saving offsetting the weakness in their public saving.

- Low levels of private saving in Australia relative to other OECD countries underscore the importance of ensuring that public finances — and associated levels of public indebtedness — remain sound.

**Chart 5: General Government Net Debt Levels in Selected Countries
1990 to 1998^{(a)(b)}**



- (a) All data are for the total general government sector (ie the aggregate of all levels of government, including the social security sector but excluding the PTE sector). The OECD is the Organisation for Economic Co-operation and Development. Its membership consists of the industrial countries of Europe and North America, Mexico, Japan, Korea, Australia and New Zealand. The OECD average data relate only to the 20 countries included in the OECD *Economic Outlook* 62. The EU average is the average of member countries of the European Union.
- (b) All data up to 1996 are outcomes. For Australia, data refer to the year ending 30 June (eg 1996 data are for year ended 30 June 1996). The OECD and New Zealand data for 1997 and 1998, and the data for Australia for 1998, are estimates.

Source: OECD *Economic Outlook* 62, New Zealand Budget Papers, ABS *Public Sector Financial Assets and Liabilities* (Cat. No. 5513.0) and Treasury estimates.

OUTLAYS RESTRAINT

Outlays restraint has been — and remains — fundamental to the delivery of the fiscal surpluses projected over the next few years. In accordance with a continued focus on outlays restraint, new policy spending since the 1997-98 Budget has been restricted over the forward estimates period and directed towards high priority areas such as seniors, health, education, training and youth. The Government's ongoing review of expenditure priorities has provided some offsetting savings.

The strict limits on net new policy spending are in line with the Government's commitment to reduce the level of underlying outlays as a proportion of GDP over the forward estimates period.

- Outlays as a share of GDP are expected to fall from around 27 per cent of GDP in 1995-96 to below 23 per cent by 2001-02 — their lowest levels since 1973-74.

The Government's budget priorities are spelled out in greater detail in Part IV of this Statement.

STABLE TAX BURDEN

The projected surpluses are not predicated on higher growth in revenues. Revenues as a share of GDP are projected to remain relatively stable through the forward estimates period — and are little different from their 1995-96 levels of around 25 per cent of GDP. The few additional revenue measures in 1998-99 have focussed on addressing anomalies and protecting the tax revenue base. The Government's commitment to no new taxes or increases in existing taxes over the life of this Parliament has been met.

A credible fiscal strategy has been built on surpluses generated by outlays restraint. This has also been achieved despite the structure of the tax system failing to keep pace with changes in the economy and the pressures this is placing on existing tax bases, requiring continual repair and maintenance. These ongoing problems, as well as serious concerns relating to the overall complexity, distortions and unfairness of the existing system, highlight the need for tax reform. The achievement of a sound fiscal position means the Government's tax reform focus can concentrate on delivering better outcomes rather than generating additional revenues to cover growing outlays.

PART IV: BUDGET PRIORITIES

The Government's budget priorities continue to be developed within a framework that takes account of the Government's broader economic and social objectives. In particular, the Government aims to:

- promote an economic climate conducive to high levels of sustainable economic and employment growth, including through contributing to improved levels of national saving and reductions in government debt;
- ensure that taxes are used by the Government as efficiently and effectively as possible, particularly through:
 - the ongoing assessment of public expenditure priorities to ensure that funding is provided to the highest priority programmes;
 - the review of programmes to ensure that they are achieving their intended objectives and are efficiently and effectively delivered;
- fulfil its social obligations through:
 - the supply of essential public goods and services;
 - the provision and maintenance of a fair and effective social safety net that supports those in the community most in need;
- minimise the tax burden on Australians, while ensuring that the integrity of the taxation base is preserved and that all taxpayers bear an equitable burden of taxes; and
- undertake broader reforms of the public sector, including through the review of public sector involvement in non-core activities, and improving processes for planning and the assessment of performance.

The measures in the 1998-99 Budget are consistent with, and build on, the budget priorities laid out in the 1996-97 and 1997-98 Budgets. Since coming to office, the Government has consistently focussed on a number of key areas including families, the elderly, small business, employment and regional Australia.

In the 1996-97 and 1997-98 Budgets, the Government helped to relieve financial pressures on families with the Family Tax Initiative, Private Health Insurance Incentives Scheme and through policy initiatives to support those caring for children with disabilities. Small business has received support through a variety of initiatives including Capital Gains Tax rollover relief, the establishment of a Small Business Innovation Fund, reductions in the provisional tax uplift factor and reductions in taxation compliance costs. The Government has sought to promote employment through reforms to labour market assistance and training, including improved incentives for employers to take on apprentices and trainees and the Work for the Dole scheme. The elderly have been assisted through the legislation of the commitment to maintain pensions at a minimum of

25 per cent of Male Total Average Weekly Earnings, and self-funded retirees have been assisted through the introduction of the low income aged persons tax rebate.

The 1998-99 Budget aims to extend these achievements. The following provides details on key outlays and revenue priorities, particularly as reflected in the measures announced over the past year.

National Saving and Debt Reduction

Improving national saving and reducing net debt remain key budget priorities. The 1996-97 and 1997-98 Budgets were intended to provide a substantial boost to public saving and, over time, national saving. The Government has also introduced a savings rebate to be implemented from 1 July 1998, which is aimed at assisting private saving. The savings from fiscal consolidation efforts — together with the proceeds from equity asset sales — have been used to reduce net debt.

It is important that the fiscal consolidation achieved to date is maintained if credibility in the medium-term objective is to be preserved and the longer-term benefits flowing from fiscal consolidation efforts are to be realised. The 1998-99 Budget maintains the medium-term path for fiscal policy that has been established by the Government. The shift to underlying budget surplus ensures the Commonwealth will not be contributing to the expected widening in the current account deficit. It also provides for significant reductions in net debt.

Care And Support For Older Australians

The Government has increased funding for a range of measures to enhance the care of older people in the community, and provide greater recognition and support for carers. The Government's *Staying at Home — Care and Support for Older Australians* package announced in April is directed at assisting elderly Australians remain in their homes by enhancing community care. The Government has committed \$280 million over the next four years to: provide Community Aged Care Packages; provide a more generous eligibility test for Domiciliary Nursing Care Benefit; and expand carer respite places (including specific places for people with dementia).

In recognition of the significant contribution and sacrifice that Australia's World War II veterans have made, from 1 January 1999 the Government will extend full repatriation health care entitlements (the Gold Card) to an estimated 50,000 Australian WWII veterans aged 70 years or older who have qualifying service as a result of incurring actual danger from hostile forces. This measure, at a cost of \$500 million over four years, will provide substantial additional health care benefits to eligible veterans. The Gold Card entitles veterans to treatment for all health conditions whether service-related or not. It provides free treatment as a private patient in hospital with choice of doctor/medical practitioner, free out-of-hospital treatment and concessions on a wider range of pharmaceuticals than available to other concessional cardholders. Gold Card holders are also not required to pay the Medicare levy.

To encourage and support self-funded retirees the Government has simplified the income test for the Commonwealth Seniors Health Card to one based on taxable income and raised the income test threshold for the card. The change is likely to allow some 220,000

additional self-funded retirees to qualify for the card. The benefit is that cardholders can purchase eligible pharmaceuticals at the same concessional rate as pensioners.

A Healthy Australia

The Government has made a significant commitment to improving the health system. Under the Australian Health Care Agreements, funds which the States have available for hospitals will increase by \$2.9 billion (including the cost of direct purchasing of veterans' health care) over the period 1998-99 to 2002-03, relative to the continuation of the previous agreements. These arrangements will ensure that public patients receive free access on a needs basis and facilitate reforms to improve the efficiency and effectiveness of health services. This year, the Commonwealth has also provided increased funding for the States and Territories of \$130 million over five years under the new Commonwealth State Disability Agreement. This will provide for additional accommodation support services for people with disabilities and assist States to meet their responsibilities in this area. This funding is in addition to the \$54 million in extra funding which was provided in the 1997-98 Budget.

The Government is providing significant increases in resources to combat illicit drugs and their adverse health impact in the community through the National Illicit Drugs Strategy. In total, the Strategy provides funding of around \$215 million over five years to reduce the demand and supply of illicit drugs in the community, for drug treatment and rehabilitation, and for community education.

Measures announced in the 1998-99 Budget will build on these commitments. Measures to improve preventive health will involve a new programme to combat influenza among older Australians, and programmes to combat infectious diseases amongst indigenous people, and tobacco-related disease. Steps will also be taken to improve rural and regional health, through the establishment of an integrated approach to providing health and family services in regional Australia. The Government has also demonstrated its commitment to medical research by providing additional funding of around \$175 million over four years for the National Health and Medical Research Council.

Investing for Growth

In December 1997, the Government released its \$1.3 billion *Investing for Growth* industry statement as part of its extensive reform agenda to deliver improved industry performance. A range of well-targeted measures were introduced to: increase support for business research and development and the commercialisation of that research; make investment in Australia more attractive; build Australia's strength as a trading nation; further improve the attractiveness of Australia as a financial centre; and ensure government, business and the wider community maximise the opportunities to contribute to, and benefit from, the global information revolution.

The Government recently announced the Automotive Competitiveness and Investment Scheme (ACIS), a new scheme that will form part of its package of post-2000 measures for the automotive industry. ACIS will encourage the continued development of a competitive and sustainable automotive industry in Australia by providing assistance of up to \$2 billion over five years, depending on production and investment performance.

Increasing Employment and Improving Education

Lasting reductions in unemployment will only be achieved by creating an environment for sustained economic growth and real job opportunities. An important part of the Government's strategy for reducing unemployment is to improve the overall operation of the labour market through progressing its industrial relations and labour market assistance reforms. The Government announced initiatives in January 1998 that extend the principle of mutual obligation. This aims to improve young peoples' job prospects and encourage their involvement with the community. From 1 July 1998, young people aged 18 to 24 years who have been unemployed for six months will be required to undertake an additional activity, as well as continue to look for work. Government-funded activities include Work for the Dole, literacy and numeracy training or Green Corps. Alternatively, mutual obligations can be fulfilled by undertaking part-time work, voluntary work or education and training.

The Government has announced it will introduce a new Youth Allowance on 1 July 1998. Youth Allowance will replace a number of different payments, including AUSTUDY for students under 25 years of age and Newstart Allowance and Youth Training Allowance for under 21 year olds. The new payment will provide a simplified and flexible system of income support for young people that will include incentives to remain in education and training.

The Government has introduced measures to increase educational opportunities for young Australians, so as to improve their job prospects. For example, additional funding is provided in the 1998-99 Budget for the continuation of the National Asian Language Studies in Australian Schools Strategy; continuing the Job Placement, Employment and Training Programme; and establishing a Volunteer Ambassadors for Development Programme.

Improving the Environment

The Government has established the Natural Heritage Trust of Australia Reserve which provides an innovative and integrated approach to Australia's environmental problems, recognising that environmental protection and the development of sustainable agriculture are complementary goals. The Trust is about to enter the third of its five year term of funding which totals \$1.25 billion. The Trust aims to stimulate investment in the conservation, repair and replenishment of Australia's environmental, agricultural and natural resources.

On 20 November 1997, the Prime Minister announced a significant package of measures with a total cost of \$180 million over five years as part of Australia's response to climate change. The measures are aimed at addressing Australia's greenhouse gas emissions, including programmes in the residential, energy and transport sectors and for revegetation, plantations and land use.

Federation Fund

The Government established the \$1 billion Federation Fund in the 1997-98 Budget to finance major projects of national significance to mark the Centenary of Federation and contribute to the infrastructure needs of Australia for the next century. Major projects are

selected on the basis that they will make a significant and ongoing contribution to Australia and the Australian economy. To date, more than \$500 million has been allocated, including funds for: the construction of new facilities for the National Museum of Australia and the Australian Institute of Aboriginal and Torres Strait Islander Studies (\$147 million); the Alice Springs to Darwin rail link (\$100 million); the Jervoise Bay Port Facility in Western Australia (\$80 million); the Brisbane Light Rail Project (\$65 million); re-development of the National Gallery of Victoria (\$25 million); and Federation community, cultural and heritage projects (\$100 million).

Rural Australia

In September 1997, the Government announced a major rural policy statement, *Agriculture Advancing Australia*, which provides an integrated package of measures costing \$525 million over four years. The package replaces the Rural Adjustment Scheme (RAS) and seeks a smooth transition of farmers out of drought and debt problems and promotes a growing and healthy rural sector. More specifically, the package: helps individual farm businesses profit from change; ensures the farm sector has access to an adequate welfare safety net; provides positive incentives for on-going farm adjustment; and encourages social and economic development in rural areas.

Fostering Regional Stability

Promoting regional stability will help protect Australia's own economic growth prospects. Australia has been a strong supporter of the International Monetary Fund (IMF) sponsored adjustment programmes implemented in a number of Asian economies following recent financial crises. Australia has pledged up to \$US1 billion in support to each of Thailand, Indonesia and the Republic of Korea, linked to their continued adherence to the IMF programmes. Australia is one of only two countries (the other being Japan) to provide bilateral support for all three IMF programmes. Australia's assistance will be in the form of loans or swaps from the Commonwealth Government or, in the case of Thailand, through a 'currency swap' agreement between the Reserve Bank of Australia and the Bank of Thailand. Australia has to date made \$US680 million available to Thailand under this agreement. For Indonesia and the Republic of Korea the Government has announced a preparedness to activate up to \$US300 million and \$US330 million, respectively, of its proposed support through loans. Funds provided to other governments under loan facilities are classified as net advances and do not impact on the underlying budget aggregates.

The Australian Government has also announced the establishment of a \$500 million facility to provide trade credit insurance for Australian exporters to the Republic of Korea using the National Interest Account (NIA) and managed by the Export Finance Insurance Corporation (EFIC). In addition, applications for trade credit insurance for exports to Indonesia will be considered on a case by case basis for uncapped access to the NIA. Under this facility the Government will be providing up to \$500 million in trade credit insurance cover, through EFIC, in relation to exports of wheat to Indonesia by the Australian Wheat Board and \$US250 million for exports of cotton in 1998.