

MID-YEAR ECONOMIC AND FISCAL OUTLOOK

PART I: OVERVIEW

Australia's economic growth in 1998-99 is now expected to be stronger than forecast in the May 1998 Budget and stronger than forecast in the September 1998 *Pre-Election Economic and Fiscal Outlook* (PEFO).

The forecast of around 3¼ per cent compares with forecasts of 3 and 2¾ per cent respectively. Employment growth is expected to be stronger than PEFO, however, over the course of the year domestic demand is expected to slow which, together with the effects of slow world economic growth, mean that the unemployment rate is expected to remain broadly unchanged. Inflation is expected to increase moderately from historically low levels as higher import prices gradually flow through into retail prices, but to remain within the 2 to 3 per cent band. The current account deficit is expected to increase to around 5½ per cent of GDP, from a little over 4 per cent in 1997-98, reflecting the weaker international environment.

Table 1: Summary of Budget Aggregates

	1998-99			1999-00		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
Revenue (\$m)	144258	145243	146203	151299	152119	150632
<i>Per cent of GDP</i>	25.0	25.3	24.9	24.7	25.0	24.3
Underlying Outlays (\$m)	141570	142698	142936	146566	148684	148026
<i>Per cent of GDP</i>	24.6	24.9	24.3	24.0	24.4	23.9
Underlying Balance (\$m)	2688	2545	3267	4733	3435	2607
<i>Per cent of GDP</i>	0.5	0.4	0.6	0.8	0.6	0.4
<i>Memorandum items:</i>						
Net Advances (\$m)	-16027	-5377	-5399	-18772	-12922	-13769
Headline Balance (\$m)	18715	7922	8666	23505	16357	16376
<i>Per cent of GDP</i>	3.2	1.4	1.5	3.8	2.7	2.6
	2000-01			2001-02		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
Revenue (\$m) (a)	160200	143385	142313	171096	153378	152227
<i>Per cent of GDP</i>	24.7	22.2	21.7	24.9	22.4	21.9
Underlying Outlays (\$m)	151586	139419	138893	156508	143004	142811
<i>Per cent of GDP</i>	23.4	21.6	21.2	22.8	20.9	20.5
Underlying Balance (\$m)	8614	3967	3420	14588	10374	9416
<i>Per cent of GDP</i>	1.3	0.6	0.5	2.1	1.5	1.4
<i>Memorandum items:</i>						
Net Advances (\$m)	-12856	-30138	-32793	455	-7182	-8497
Headline Balance (\$m)	21470	34104	36213	14133	17557	17913
<i>Per cent of GDP</i>	3.3	5.3	5.5	2.1	2.6	2.6

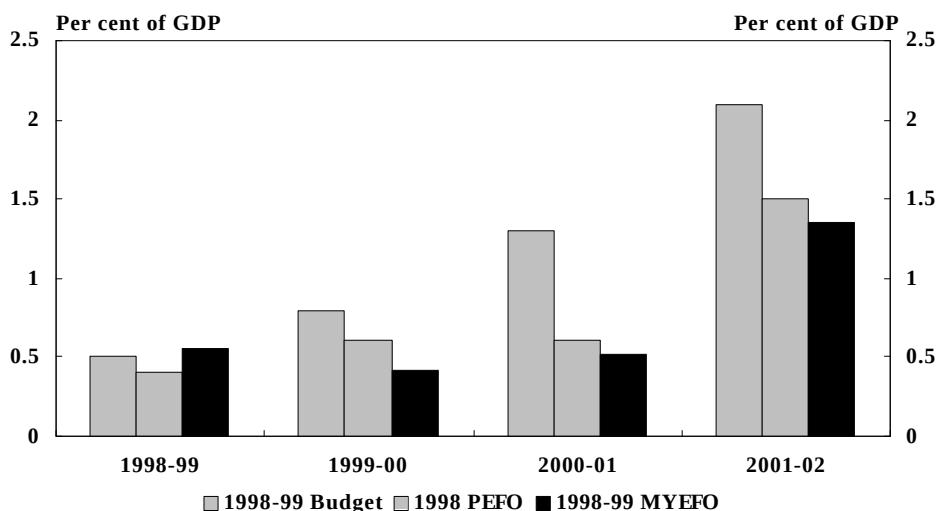
(a) Revenue estimates from 2000-01 reflect the impact of *A New Tax System*, in particular, the income tax cuts and the abolition of the wholesale sales tax. The GST does not have an impact as it is treated as a State/Territory tax.

Economic growth in 1999-2000 is expected to be around 2¾ per cent in year-average terms, although strengthening through the year (3½ per cent in through-the-year terms) reflecting a gradual pick-up in export growth and plant and equipment investment as the world economy strengthens. The expected growth rates demonstrate the impressive performance of the Australian economy in the face of the international slowdown and compare very favourably with the outlook for other developed economies and most economies in the region.

Table 1 and Chart 1 show the current fiscal projections for 1998-99 and the forward estimates period against estimates in the 1998-99 Budget and the September 1998 PEFO.

Compared to the 1998-99 Budget, the higher underlying surplus forecast for 1998-99 reflects higher expected revenue collections more than offsetting an upward revision to outlays in that year. The underlying surpluses in the outyears have been revised downwards since the budget, primarily reflecting the impact of the Government's taxation reform package (*A New Tax System*).

Chart 1: Underlying Budget Balance Estimates



The current fiscal outlook remains consistent with the Government's fiscal objective of running the budget in surplus over the forward estimates period while economic growth remains sound. Furthermore, current fiscal settings indicate that the Government remains on track to halve the ratio of Commonwealth general government net debt to GDP from that inherited in 1995-96 over the five years to 2000-01.

Underlying outlays as a proportion of GDP are expected to decline over the forward estimates period to 20.5 per cent of GDP by 2001-02. Similarly, revenue as a proportion of GDP is expected to fall from 24.9 per cent in 1998-99 to 21.9 per cent by 2001-02. These are the lowest shares of GDP projected for both outlays and revenue since 1972-73 and largely reflect the impact of *A New Tax System* (in particular, the abolition of Financial Assistance Grants to the States and Territories, the abolition of wholesale sales tax and the personal income tax cuts).

Large headline budget surpluses are expected over the forward estimates period, reflecting the outlook for the underlying budget balance and asset sale proceeds — most

notably those from the sale of the Commonwealth's remaining equity in Telstra. Compared to budget time, however, the projected headline surpluses have been revised downwards in 1998-99 and 1999-2000 and upwards in the last two outyears. These revisions largely reflect changes to the proposed method and timing of the Telstra sale as well as more recent estimates of its market value.