Part I: Overview

The Commonwealth's fiscal outlook has improved since the 2000-01 Budget, mainly reflecting stronger economic and employment growth and some flow-on impact of a stronger than anticipated revenue outcome for 1999-2000.

Table 1 presents the fiscal and underlying cash balances for 2000-01 and the forward years.

- In cash terms, a surplus of $4.3 billion is now anticipated for 2000-01, compared with the Budget estimate of $2.8 billion.

- In accrual terms, the estimated fiscal surplus for 2000-01 has been revised up by $3.0 billion since the Budget, to $8.4 billion.

Looking ahead, the cash surplus for 2001–02 is expected to be $4.7 billion, an increase of $1.5 billion over the Budget estimate. The fiscal surplus for 2001-02 is now projected to be $3.3 billion, a $2.2 billion increase since the Budget.

Table 1: Summary of budget aggregates

	2000-01		2001-02	
	Budget	MYEFO	Budget	MYEFO
Fiscal balance ($b)	**5.4**	**8.4**	**1.1**	**3.3**
Per cent of GDP	0.8	1.2	0.2	0.5
Underlying cash balance ($b)	**2.8**	**4.3**	**3.2**	**4.7**
Per cent of GDP	0.4	0.6	0.5	0.7
	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
Fiscal balance ($b)	**7.6**	**6.8**	**13.9**	**12.8**
Per cent of GDP	1.0	0.9	1.7	1.6
Underlying cash balance ($b)	**8.8**	**7.6**	**14.4**	**12.9**
Per cent of GDP	1.2	1.0	1.8	1.6

The improved fiscal outlook for 2000-01 and 2001-02 is largely the result of an increase in expected revenue, particularly from individuals and company taxpayers. In addition, transitional factors affecting GST revenues — not previously identified — have reduced the expected amount of budget balancing assistance the States require from the Commonwealth over these two years (see Part III for more information).

These positive effects on the budget surplus have been partly offset by some significant increases in expenses, including higher savings bonuses paid to older Australians and a greater than expected take-up of private health insurance that has led to increases in payments of the Private Health Insurance Rebate.

Economic growth in Australia is forecast to be a robust 4 per cent in 2000-01, following strong growth in excess of 4 per cent in the three previous years. The growth forecast has been revised up slightly from 3¾ per cent at Budget, largely reflecting a stronger world growth outlook and the impact of the lower Australian exchange rate on exports and overall economic activity.

Employment is now expected to increase by a strong 3 per cent in 2000-01, compared with 2¼ per cent at Budget, largely reflecting rapid employment growth in the September quarter 2000 and the upward revision to the overall economic growth forecast. The downward trend in the unemployment rate is expected to continue, while the current account deficit is expected to decline significantly to around 4¼ per cent of GDP in 2000-01, down from 5¼ per cent of GDP in 1999-2000.

Through the year to the June quarter 2001, the headline Consumer Price Index is forecast to increase by around 5½ per cent, with this outcome substantially affected by the impact on consumer prices of *The New Tax System*. Leaving aside these effects, 'ongoing' inflation is forecast to be around 3 per cent through the year to the June quarter 2001, revised up from 2½ per cent at Budget. The upward revision to the forecast for 'ongoing' inflation since Budget reflects the impact of higher world oil prices and the lower exchange rate relative to the levels assumed in the Budget, rather than any significant step up in domestic wage or general inflationary pressures.

The initial forecast for 2001-02 is for economic growth of around 3¾ per cent, in line with Australia's medium term potential growth rate, based on solid growth in employment of around 2 per cent and growth in labour productivity of around 1¾ per cent. The unemployment rate is expected to decline further, to below 6 per cent. The headline CPI is forecast to increase by just 2 per cent through the year to the June quarter 2002, as world oil prices ease and some later elements of *The New Tax System* put downward pressure on consumer prices.

DOCUMENT STRUCTURE

A comprehensive assessment of the economic outlook is provided in Part II, while Part III provides an overview of the fiscal outlook. More detailed information on revenue is provided in Part IV and on expenses and capital in Part V. Appendix A provides detailed information on policy decisions taken since the 2000-01 Budget.