

Part I: Overview

Despite an uncertain international economic environment, the Commonwealth's budget outlook remains sound, with moderate underlying cash surpluses projected in 2001-02 and the following three years.

An underlying cash surplus of \$0.5 billion is now anticipated in 2001-02, lower than estimated at the 2001-02 Budget, as a result of higher estimated cash payments and lower proceeds from the sale of non-financial assets, partly offset by expected taxation revenue collections being a little stronger.

The underlying cash balance is expected to remain in surplus in 2002-03 with higher surpluses projected for 2003-04 and 2004-05.

Table 1: Summary of budget aggregates

	2001-02		2002-03	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance(\$b)	1.5	0.5	1.1	1.0
Per cent of GDP	0.2	0.1	0.1	0.1
Fiscal balance(\$b)	-0.8	-3.1	-1.5	-1.3
Per cent of GDP	-0.1	-0.4	-0.2	-0.2
	2003-04		2004-05	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance(\$b)	4.1	1.8	7.4	3.9
Per cent of GDP	0.5	0.2	0.9	0.5
Fiscal balance(\$b)	2.7	0.6	6.9	3.7
Per cent of GDP	0.3	0.1	0.8	0.4

In accrual terms, the fiscal balance is expected to be in deficit over the next two years, before returning to surplus in 2003-04 and 2004-05, as projected in the Budget. In part, this arises from different treatment of revenue resulting from timing factors and different treatment of provisioning as detailed in Part III.

Estimated cash payments in 2001-02 have increased since Budget, primarily reflecting the impact of economic and other parameter variations, and the effect of policy measures announced in recent months. These policy measures include funding to address the flow of unauthorised boat arrivals to Australia and to provide assistance to air travellers stranded in the wake of the cessation of Ansett operations in September. The major economic parameter variations relate to the effect of stronger prices and wages growth on the indexation of Commonwealth expenditure, particularly personal benefit payments and budget assistance to the States and Territories.¹

¹ Under the transitional revenue guarantee provided by the Commonwealth to the States during the early years of the GST, budget assistance is paid to the States to ensure they are

In addition to higher cash payments in 2001-02, estimated cash receipts from the sale of non-financial assets have been revised downwards since Budget. This is largely due to a number of property sales originally scheduled for 2001-02 being delayed until 2002-03.

In 2001-02, higher estimated expenditure and lower asset sale receipts have been partly offset by an upward revision to forecast taxation revenue. The stronger outlook for taxation revenue in 2001-02 incorporates the flow-on impact of a stronger revenue base in 2000-01, and continued strength in taxation collections to end-September 2001.

Relative to expectations at the 2001-02 Budget, the outlook for taxation revenue remains broadly unchanged.

Domestic and international economic outlook

The Australian economy is expected to grow by around 3 per cent in 2001-02 in year-average terms, a little below the $3\frac{3}{4}$ per cent forecast at Budget. This slight downward revision reflects the expected impact of a much weaker and more uncertain global economic environment more than offsetting stronger growth in some components of domestic demand (especially housing).

Domestic demand is forecast to grow by a solid $3\frac{3}{4}$ per cent in 2001-02, with net exports expected to detract around $\frac{3}{4}$ of a percentage point from overall domestic economic growth. At Budget, domestic demand was expected to grow by 3 per cent, with net exports contributing a further $\frac{1}{4}$ of a percentage point to growth. This change in the mix of growth represents a sharp turnaround from 2000-01, when the contribution from net exports to GDP growth substantially outweighed that of domestic demand.

Employment growth is forecast to be $\frac{3}{4}$ of one per cent in 2001-02 in year-average terms, with the unemployment rate expected to be unchanged from the Budget forecast of 7 per cent in the June quarter 2002. The headline Consumer Price Index (CPI) is expected to increase by around $2\frac{3}{4}$ per cent in 2001-02. The increase in the CPI forecast since Budget largely reflects a number of one-off factors, with ongoing inflationary pressures expected to remain relatively subdued.

The initial forecast for 2002-03 is for a strengthening in economic growth in Australia to around $3\frac{1}{2}$ per cent — a level more in line with Australia's longer-term average growth rate. Employment growth is forecast to be slightly stronger than in 2001-02 and the CPI is forecast to increase by around $2\frac{1}{2}$ per cent.

no worse off under the new taxation system than they would have been under the former system.