Budget OVERVIEW

This document provides an overview of the Commonwealth Budget, recent economic developments and the outlook for 2001-02, as presented in the Budget Papers circulated by the Treasurer on 22 May 2001.

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

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The 2001-02 Budget

The 2001-02 Budget provides for the Government's fifth consecutive cash surplus, the longest run of cash surpluses in almost 30 years. It delivers additional funding for national priority initiatives, including measures to provide increased support to older Australians, improve the welfare system and to improve the health and living standards of all Australians. Following a temporary economic slowdown in 2000-01, the significant tax reductions and new expenditure provided in the Budget will help support an early return to strong growth in the year ahead.

the Government's fifth cash surplus in a row

A cash surplus of $1.5 billion is expected in 2001-02 and further surpluses are expected in the following years.

net debt to fall further

This Budget continues to repay net debt. By the end of 2001–02, the Government will have repaid almost $60 billion of net debt since 1996–97 allowing interest savings of around $4 billion per year to be directed to other priorities.

initiatives in high priority areas

The Budget provides for initiatives in high priority areas including significant tax reductions, support for older Australians, welfare reform, health, rural and regional Australia, indigenous Australians, research and innovation, transport, sport and defence.

fiscal stimulus to support a return to strong growth

The Government's medium term fiscal strategy provides the scope for fiscal policy to respond to temporary slowdowns in the economy while maintaining fiscal discipline over time.

COMMONWEALTH BUDGET BALANCE

	Actual	Estimates		Projections		
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Underlying cash balance ($b)	**12.7**	**2.3**	**1.5**	**1.1**	**4.1**	**7.4**
Per cent of GDP	2.0	0.3	0.2	0.1	0.5	0.9
Fiscal balance ($b)	**13.5**	**5.4**	**-0.8**	**-1.5**	**2.7**	**6.9**
Per cent of GDP	2.1	0.8	-0.1	-0.2	0.3	0.8

The Australian Economy: Growth to Bounce Back

The Australian economy has enjoyed a record period of sustained strong economic growth with low inflation and falling unemployment over recent years. Following a slowdown in economic growth in the second half of 2000, growth is set to rebound during 2001-02.

Over the three years to mid-2000, Australia enjoyed a record period of sustained strong economic growth — in excess of 4 per cent per year — with unemployment falling to its lowest level in a decade.

Australia experienced a record period of sustained strong growth through to mid 2000

A slowdown in the second half of 2000 is expected to be transitory and partially reflects the unwinding of record activity in residential construction ahead of the introduction of *The New Tax System*.

the slowdown in the second half of 2000 is likely to be transitory

Economic growth is set to rebound during 2001-02, with solid employment growth by the second half of the year holding the unemployment rate steady at around 7 per cent.

a rebound in growth is expected in 2001-02

Residential construction is expected to recover strongly in 2001-02, assisted by the more generous First Home Owners Scheme and lower interest rates.

residential construction is expected to bounce back

Moderate growth in wages and an expected gradual easing in petrol prices will feed through to lower inflation.

lower inflation

The export sector is benefiting from the lower exchange rate, despite slower world growth, reducing the current account deficit to around the lowest level in a decade.

the current account deficit is at decade lows

Economic Forecasts(a)

	Forecasts	
	2000-01	2001-02
Real GDP	2	3 1/4
Employment	2	1
Unemployment rate - June quarter (per cent)	6 3/4	7
Average earnings (wages)	3 1/2	3 3/4
Ongoing inflation - through the year	3 1/4	2 1/4
CAD as a % of GDP	-3	-3

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

Achieving the Government's Social and Economic Objectives

This Budget announces new measures to improve the living standards of all Australians. The Budget targets the Government's social and economic priorities, while retaining a sound fiscal position.

this Budget advances the Government's social and economic priorities

The Government's social and economic priorities provide the framework for the 2001-02 Budget. These include:

- maintaining a strong financial position for the Commonwealth while cutting taxes

addressing these priorities will improve our living standards

- maintaining a fair and effective social safety net while at the same time encouraging greater participation in the work force
- strengthening our social and economic infrastructure, especially in rural and regional Australia.

The 2001-02 Budget delivers a number of initiatives that target these priorities. These measures will:

- provide additional support for older Australians, and recognise the service of our veterans

this Budget provides greater incentives for economic and social participation

- build a more active participation-based social safety net to substantially improve our welfare system
- ensure that Australia's health care system continues to provide high quality outcomes
- build on initiatives in recent budgets aimed at developing the social and economic infrastructure of rural and regional Australia
- further develop practical measures to assist indigenous Australians
- safeguard our natural resources
- improve the competitiveness of Australian business.

More Benefits from Tax Reform

After $12 billion of personal tax cuts that took effect on 1 July 2000, this Budget provides for further tax cuts. From 1 July 2001, the company tax rate will be further reduced from 34 per cent to 30 per cent, and State Financial Institution Duty (FID) and stamp duty on most share transactions will be abolished. In addition, full input tax credits for business on the acquisition of motor vehicles will be brought forward from 1 July 2002 to 23 May 2001.

around $5 billion in tax cuts next year and simpler administration

From 1 July this year:

- the company tax rate will drop further (from 34 to 30 per cent), to amongst the lowest rates in the region saving companies around $2 billion a year
- State Financial Institutions Duty (FID) will be abolished, saving around $1.2 billion a year for individuals and companies
- stamp duty on most share transactions will be abolished, saving around $0.7 billion a year for investors and encouraging the further development of Australia's capital markets
- excess imputation credits (for dividends paid from 1 July 2000) will be refunded to resident individuals, complying superannuation funds, endorsed charities and gift deductible organisations. Shareholders will benefit by around $500 million each year
- the 'Simplified Tax System' will cut small business tax payments by more than $1 billion over three years and provide eligible small businesses with cash-based tax accounts, simpler depreciation and trading stock rules
- the 'Uniform Capital Allowances' system will simplify amortisation regimes and reduce compliance costs, replacing over 27 separate write-off regimes with a uniform approach.

earlier access to input tax credits for motor vehicles

In this Budget, the Government is announcing the bring forward of full input tax credits for business on the acquisition of motor vehicles from 1 July 2002 to 23 May 2001. This initiative will slash business costs by over $600 million and boost motor vehicle sales.

Australians Working Together

The Government is committed to building a stronger and fairer Australia.

additional funding is being invested to substantially improve our welfare system

This Budget provides a substantial up-front investment of $1.7 billion over four years to build a more active participation-based social safety net to substantially improve our welfare system.

The returns from this investment will provide a future where there are fewer families without jobs and stronger, more robust communities.

more assistance

More services are to be provided to assist people to become job ready and to find jobs. The package provides for:

- Job Search Training to be made available to all unemployed people after three months
- a new Transition to Work programme
- a significant expansion of employment assistance and education opportunities
- more practical support for indigenous Australians.

a welfare system that encourages training and rewards work

The Government will improve financial incentives so that people on income support will be better rewarded when they undertake available work, even if it is intermittent or irregular. It will also assist people who help themselves by undertaking training or work experience.

The package includes:

- the introduction of a Working Credit
- the introduction of Training Credits
- a Literacy and Numeracy Training Supplement
- a ‘Participation Pack’ to assist Parenting Payment recipients.

In return for this assistance those receiving unemployment payments are expected to make the most of these new opportunities to participate in work and the community. Many people are already making a major contribution to society as parents, carers and volunteers. These contributions will continue to be recognised. Otherwise:

greater participation expected from those receiving unemployment payments

- unemployed people aged up to 39 years will be required to undertake Work for the Dole or an equivalent amount of community service, part-time work, or study
- unemployed people aged 40 to 49 years will be expected to do some community work, part-time work or study (but not Work for the Dole)
- Parenting Payment recipients whose youngest child is aged 13 and over will be required to undertake around six hours a week of activities designed to help them return to work (with flexibility for school holidays and illness)
- Parenting Payment recipients with younger children (aged six to twelve) will be asked to attend an annual interview, to help prepare them for re-entry to work in the future.

dividends for Australia

The rewards from the new welfare system will be to assist more people who currently rely on income support to move into employment and secure a better income. In turn, this will produce savings to welfare expenditure. This will have dividends for the whole of Australia.

Welfare Reform Measures

	2001-02 $m	2002-03 $m	2003-04 $m	2004-05 $m	Total $m
Helping people find jobs	11	104	103	106	324
Helping parents return to work	7	59	83	92	240
A fair go for mature age workers	3	22	56	66	146
Getting people the right help	6	34	43	60	144
A better deal for people with disabilities	6	59	55	57	177
Promoting self-reliance for indigenous Australians	4	15	28	36	83
Help to participate	10	131	184	196	521
More child care places	2	5	4	4	16
Community and business engagement	9	8	3	3	22
Planning for the future	1	1	2	1	5
Total gross expenses (a)	**76**	**440**	**560**	**620**	**1695**
Expected savings	**-**	**-132**	**-373**	**-419**	**-924**
Net expenses	**76**	**308**	**186**	**201**	**772**

(a) Includes capital injection to Centrelink of $16.9 million over two years
Note: Totals may not add due to rounding.

Acknowledging Older Australians

measures to address the needs of older Australians

The Government is introducing a number of measures to specifically address the needs of older Australians.

- People of age pension age who receive income support or are outside the taxation and social security system will receive a one-off payment of $300. The payment will not be subject to taxation or included in social security assets tests.

increase in the effective tax free threshold

- For a single person of age pension age, the effective tax free threshold increases to $20,000 per annum, while the effective tax free threshold for couples, where income is evenly shared, increases to $32,612 per annum.
- Eligibility for the Commonwealth Seniors Health Care Card will be widened and the Government will extend the telephone allowance of $17.20 per quarter and seek to extend other State and Territory concessions to all people who hold a Commonwealth Seniors Health Card.
- Superannuation assets are to be exempted from social security means tests for people aged between 55 years and the age pension age.

additional funding for aged care services

- Additional funding of $58 million over four years will be provided to improve aged care services.

compensation for Australian Prisoners of War of the Japanese

In recognition of the unique circumstances of their captivity, the Government will make a one-off payment of $25,000 to former Australian Defence Force members who were Prisoners of War of the Japanese and civilian internees and detainees of the Japanese. For those who are no longer alive, payments will be made to their surviving spouses.

In recognition of their valuable contribution to Australian security, British, other Commonwealth and Allied Veterans of World War II who are aged seventy years or over and have qualifying service consistent with the requirements for the service pension will be provided with full access to the Repatriation Pharmaceutical Benefits Scheme.

Enhancing our Health System

additional funding to improve the health of Australians

This Budget provides more than $900 million over four years to health initiatives, building on substantial increases in health spending announced in recent budgets.

maintaining and improving Medicare

Medicare is the centrepiece of the health system, and the Government is committed to maintaining and improving Medicare for the benefit of all Australians.

In this Budget, patient rebates for general practitioner (GPs) services will be increased.

In addition, the Budget provides $43 million over four years for the development of up to 32 new sites to improve after-hours medical care.

targeted programmes for mental health, asthma, diabetes, and cervical cancer screening

The Government is also directing funding towards high priority areas, including:

- improving the quality of care provided by GPs to people with a mental illness
- additional funding to enable GPs to proactively manage asthma with a three stage consultations programme
- the establishment of an Integrated National Diabetes Programme to improve the diagnosis and management of diabetes
- encouraging more women to be screened for cervical cancer.

the establishment of an Alcohol Education and Rehabilitation Foundation

The Government has also provided $115 million over four years to set up an Alcohol Education and Rehabilitation Foundation.

ADDITIONAL COMMONWEALTH HEALTH SPENDING

	Additional Expenditures ($m)				
	2001-02	2002-03	2003-04	2004-05	4 yr total
Increase in patient funding for GP services	49	83	83	86	301
Additional practice nurses for Rural Australia	15	28	30	32	104
Proactive GP management of asthma	8	12	14	14	48
Mental health: More Options, Better services	4	25	40	52	120
Cervical screening initiatives for GPs	5	16	23	28	72
Integrated National Diabetes Programme	9	12	13	15	50
Alcohol Education and Rehabilitation Foundation	10	24	40	41	116
After hours/emergency primary medical care	9	10	12	13	43
Improved primary health care for Aboriginal and Torres Strait Islander communities	0	0	20	21	40
Other	35	30	11	-28	47
Total	**145**	**240**	**284**	**273**	**941**

Note: Totals may not add due to rounding.

Practical Measures to Address Indigenous Disadvantage

The Government is committed to practical measures to address indigenous disadvantage.

programmes for indigenous people as part of Australians Working Together

As part of the package *Australians Working Together*, the Government has provided $83 million over four years to fund programmes for indigenous Australians. This will provide for community capacity building, the establishment of Indigenous Employment Centres and the improved delivery of Centrelink services to remote areas, and increased education and training assistance.

improved indigenous housing

The Government will provide additional funding of $75 million over four years to improve indigenous housing in rural and remote areas.

additional funding for indigenous health

This Budget's health initiatives allocate $20 million per year from 2003-04 to improve primary health care services.

additional funding for the timely resolution of native title issues

The Government is also providing additional funding of $86 million over four years to the Commonwealth native title system to ensure timely resolution of native title issues.

Safeguarding our Natural Resources

additional funding for the Natural Heritage Trust

The Government is extending the Natural Heritage Trust by five years from 2002-03 with an injection of more than $1 billion. The additional funding will provide a long-term, integrated and comprehensive approach to the conservation of Australia's land, vegetation, biodiversity, coasts and oceans.

previously announced funding to address the problems of salinity and poor water quality

The additional Natural Heritage Trust funding builds on the Government's previously announced funding of $700 million for the *National Action Plan* for dry land salinity and water quality.

continued participation of local communities

Since 1997, some 300,000 Australians have been involved in Natural Heritage Trust activities. These programmes will encourage the continued involvement of regional communities, providing the opportunity to identify local sites for environmental action.

Rural and Regional Australia

This Budget builds on the Government's earlier initiatives to develop the social and economic infrastructure of rural and regional Australia.

The protection of our farms from exotic pests and diseases is of fundamental importance to our rural communities.

increased funding to guard against foot and mouth disease

In response to concerns over the recent outbreak of foot and mouth disease overseas, the Government will increase funding for the Australian Quarantine Inspection Service (AQIS), the Australian Customs Service (ACS), Australia Post and airports corporations by around $600 million over four years. There will be a target of 100 per cent screening of all mail and cargo entering Australia.

Consistent with the Government's cost recovery policy for AQIS and the ACS, the Passenger Movement Charge will be increased by $8, providing $288 million over four years towards the cost of the initiative.

more nurses in rural and regional areas

Following the $562 million Regional Health Package announced in the 2000-01 Budget, this Budget's health initiatives deliver additional funding of $104 million over four years to increase the number of practice nurses in rural and regional areas.

more places in regional universities

In addition to the increased university places announced in the innovation statement, the Government is providing funding for additional places in regional higher education campuses. 670 new places will be funded in 2002, rising to 1,832 new places in 2006.

improving rural and regional telecommunications and internet services

The Government recently announced additional spending of $147 million over five years aimed at improving rural and regional telecommunications and internet services.

previously announced additional expenditure on roads

In November 2000, the Government announced the Roads to Recovery local roads programme, the largest ever injection of funds into local roads by the Commonwealth. Of the $1.2 billion funding allocated for the programme, some $850 million will be spent in rural and regional areas.

Supporting Research and Innovation

the Government announced a major initiative to foster innovation

In recognition of the crucial role of innovation in driving national prosperity, the Government released *Backing Australia's Ability — An Innovation Action Plan for the Future* on 29 January 2001.

The Government will provide $3 billion in support over five years, in addition to the Government's current expenditure on major science and innovation programmes of around $4.5 billion in 2000-01. The Government is working towards three major objectives:

strengthening our ability to generate ideas and undertake research

- *to strengthen Australia's ability to generate ideas*. The Government will provide increased funding for research grants, university research infrastructure, major national research facilities and the establishment of world-class centres of excellence in key emerging technologies. Business will benefit from enhanced research and development tax incentives and funding.

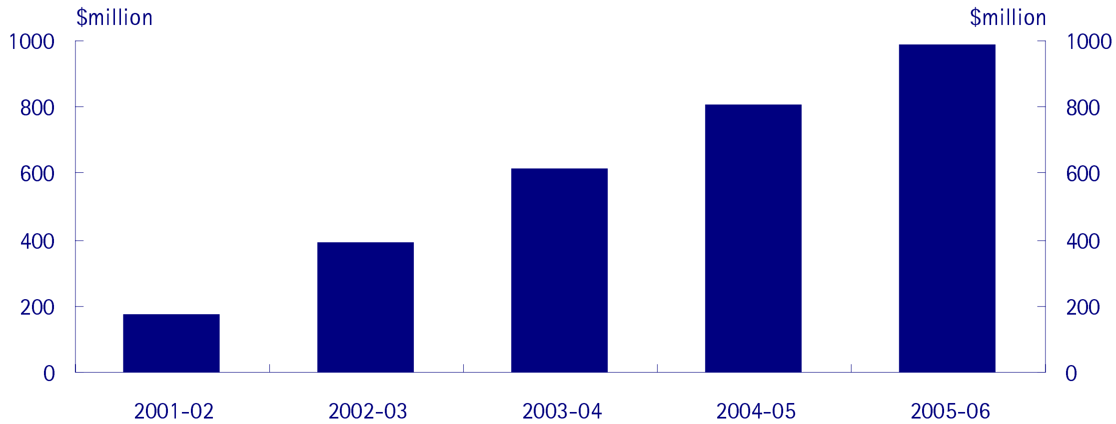
accelerating the commercial application of ideas

- *to accelerate the commercial application of ideas*. The Government will establish a pre-seed fund for universities and public sector research agencies, expand the Commercialising Emerging Technologies (COMET) and the Cooperative Research Centres programmes, and develop an Innovation Access initiative.

developing and retaining Australian skills

- *to develop and retain Australian skills*. The Government will provide further support to foster innovation related skills in schools and universities, including a Postgraduate Education Loans Scheme.

ADDITIONAL FUNDING FOR INNOVATION



Building Our Defence Force Capabilities

In December 2000, the Government released the Defence White Paper, *Defence 2000: Our Future Defence Force*, the most specific and detailed defence plan in more than twenty-five years.

the most specific and detailed Defence plan in more than twenty-five years

The White Paper followed a major review of Australia's defence requirements and maintains the Government's strong commitment to national security through the development of Australia's armed forces.

The Government has outlined a ten year capability enhancement plan expected to increase defence spending by around $28 billion over ten years.

major funding to enhance Australia's military capability

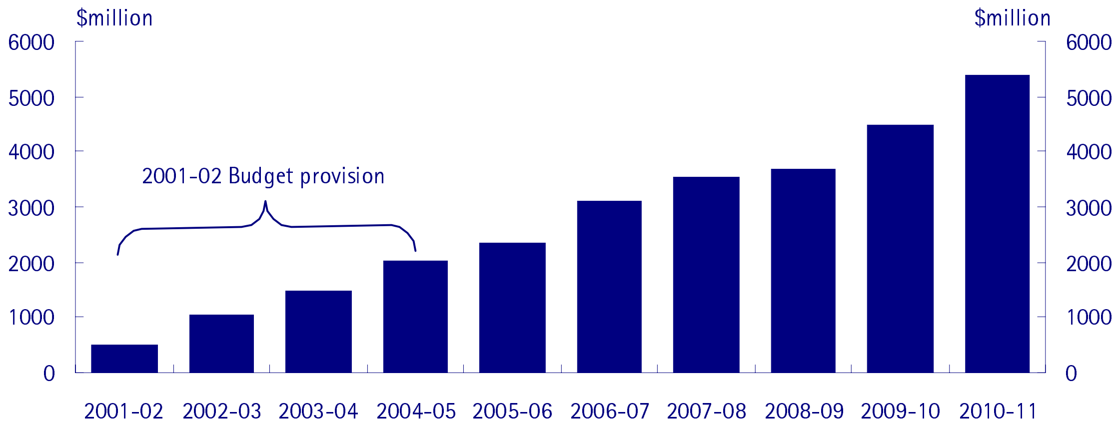
Major enhancements include the acquisition of four Airborne Early Warning and Control aircraft, bringing six Collins class submarines to a high level of capability and providing Australia with six permanent battalion groups.

This budget provides Defence funding of more than $5 billion over four years to begin implementing the military enhancements outlined in the White Paper.

The Government is committed to pursuing further reforms to Defence budgeting and financial management to ensure that this increased funding delivers value for money.

ongoing reforms to Defence budgeting and financial management

ADDITIONAL DEFENCE SPENDING



A More Active Australia

a comprehensive sports policy

After a successful Olympic Games for Australia's organisers and athletes, the Government recently announced *Backing Australia's Sporting Ability — A More Active Australia*, the most comprehensive sports policy Australia has ever seen.

The Government will be providing an additional $162 million for Australian sport over the next four years, bringing our total commitment to sport to $547 million over the next four years.

greater opportunities for Australians to participate in sport at the grass roots level

The centrepiece of the package is a new strategy aimed at increasing participation in sport, particularly amongst young people and in rural areas where sporting groups are often a vital factor in the cohesion of local communities.

funding to ensure Australia's outstanding record of sporting achievement is maintained

The Government is also providing funding for high performance sport including for the Olympic, Paralympic and Commonwealth Games. This will ensure Australia's continued success in the international sporting arena.

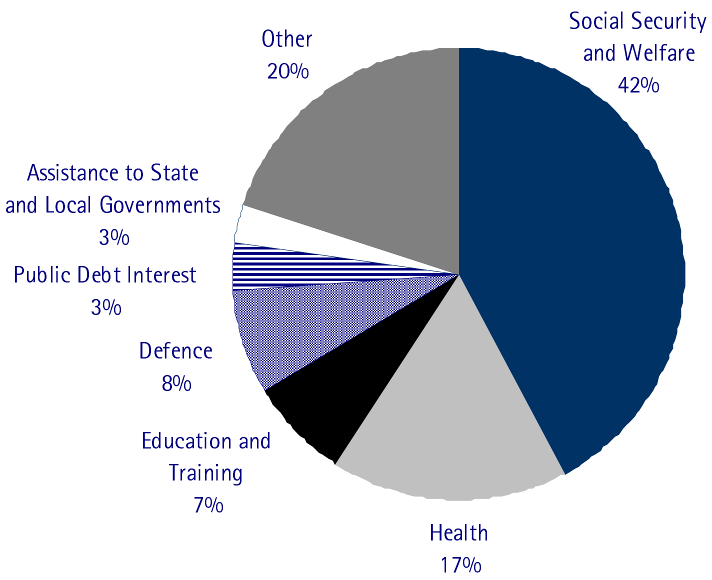
funding to support the staging of the 2006 Melbourne Commonwealth Games

To complement this package, this Budget provides $90 million towards developing facilities for the 2006 Melbourne Commonwealth Games.

Expenses and Revenue — Major Categories

The allocation of expenses by function shows the Government's commitment to providing an equitable and effective social safety net, with spending on social security, health and education representing two-thirds of all outlays. Changes to revenue reflect the impact of tax initiatives introduced by the Government.

COMMONWEALTH GENERAL GOVERNMENT EXPENSES BY FUNCTION (2001-02)

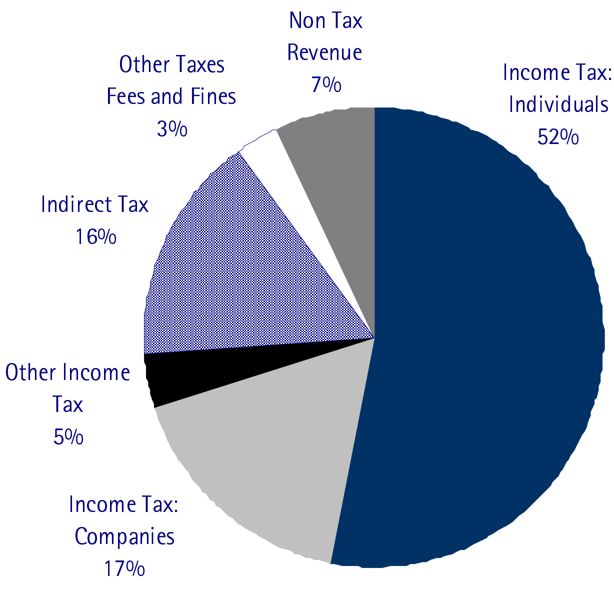


spending on social security, health and education represents around two-thirds of total expenses

spending on Defence is increasing to improve the capabilities of our Defence force

net annual Public Debt Interest payments are only three per cent, reflecting a low level of Government net debt

COMMONWEALTH GENERAL GOVERNMENT REVENUE MAJOR CATEGORIES (2001-02)



a lower company tax rate will improve the competitiveness of Australian business

the abolition of fuel indexation lowers the indirect tax burden

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

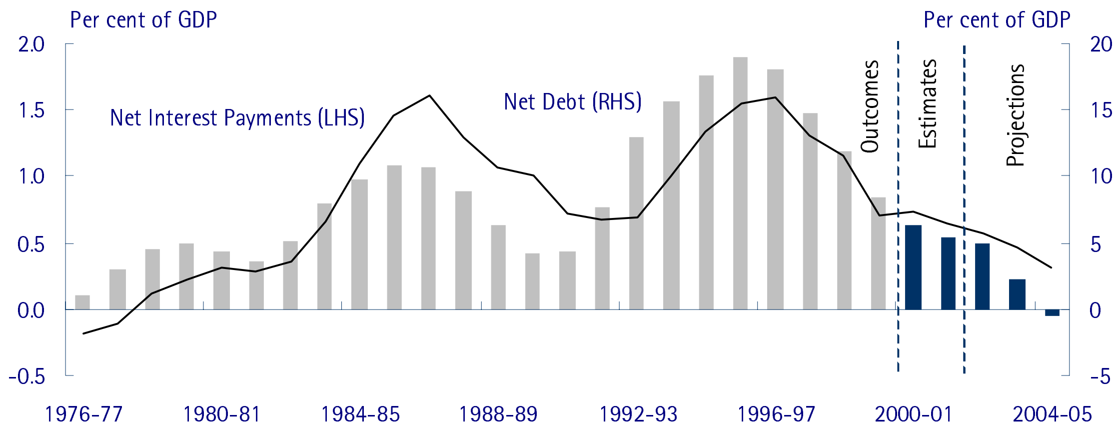
The Benefits of Debt Reduction

This Budget continues to repay net debt, confirming the Government's commitment to sustainable government finances.

as debt is repaid, interest savings can be directed to other priorities

This Budget continues to repay net debt. By the end of 2001–02, the Government will have repaid almost $60 billion of net debt since 1996–97 allowing interest saving of around $4 billion per year to be directed to other priorities such as tax cuts, support for the aged, welfare reform and health.

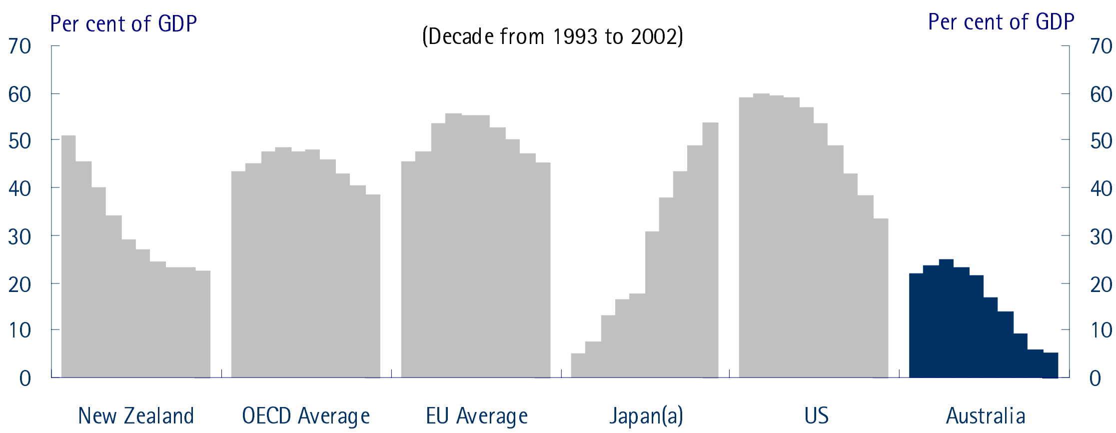
COMMONWEALTH GENERAL GOVERNMENT NET DEBT AND NET INTEREST OUTLAYS TO GDP



Australia's Government net debt is a fraction of the OECD average

By international standards, Australia is in a very strong financial position. The average level of net debt in the OECD is over four times as high as the level in Australia.

INTERNATIONAL COMPARISON
TOTAL GENERAL GOVERNMENT NET DEBT



(a) The above net debt data for Japan include assets held by the social security system. Japan's net debt, excluding these assets, was estimated by the IMF to be almost 100 per cent of GDP by March 2001.

World Growth Slows from Historical Highs

World economic growth was strong in 2000 but weakened considerably towards the end of the year. Growth is expected to moderate further in the first half of 2001 before recovering somewhat towards the end of the year and into 2002.

world growth weakened in late 2000 but is expected to strengthen towards the end of 2001

World growth is expected to be 3¼ per cent in 2001 and 4 per cent in 2002, down from an historically high 4.8 per cent in 2000.

The expected decline in world growth in 2001 largely reflects a significant easing of growth in the United States, a weaker outlook for Japan, and an easing of growth in Europe.

The slowdown in the United States is expected to lead to slower growth in other countries, including Australia's major trading partners in Asia.

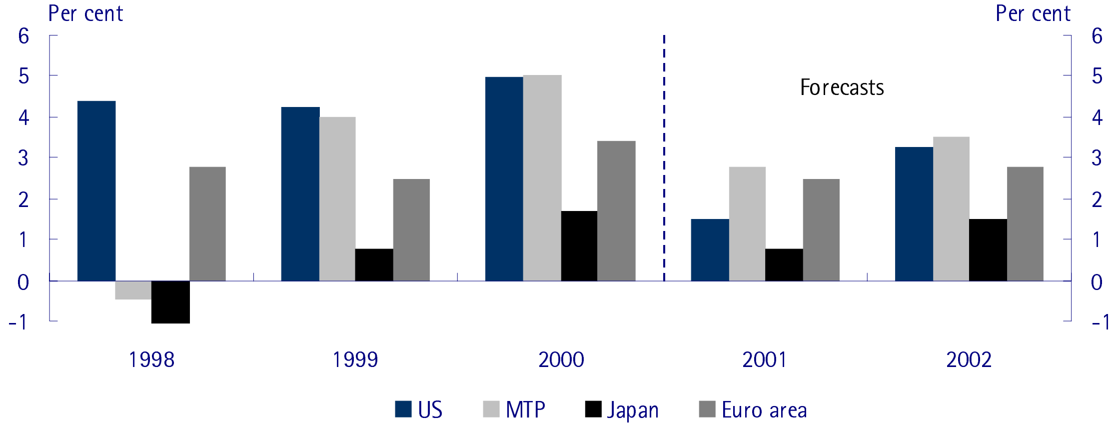
the most likely outcome is still for stronger growth in 2002

It seems likely that the slowdown will be short lived, with macroeconomic policy settings supporting a recovery. Growth across most regions is expected to rise in 2002.

considerable uncertainty surrounds the outlook

However, there is considerable uncertainty surrounding the outlook. If business conditions and confidence weaken further in the United States and/or Japan, world growth is likely to be slower than expected.

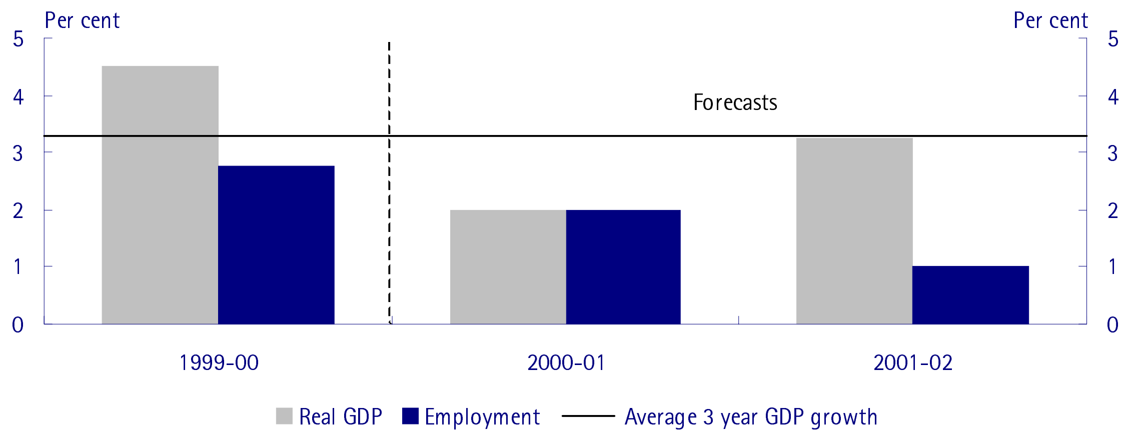
GROWTH IN MAJOR REGIONS



Economic Growth in Australia to Rebound in 2001-02

Economic growth in Australia is set to rebound over the coming year, with lower interest rates and the more generous First Home Owners Scheme (FHOS) producing strong growth in residential construction, feeding into employment growth and household consumer spending.

GROWTH IN GDP AND EMPLOYMENT



the economy has grown by around 4 per cent per annum over recent years

Since the March quarter 1996, the Australian economy has grown by an average of around 4 per cent per annum.

the timing and composition of growth has changed in 2000

Several one-off factors, including the transitional effects of *The New Tax System* on housing, adverse seasonal conditions and the Olympics changed the timing and composition of growth over recent quarters.

solid growth is expected in 2001-02

These factors have now largely run their course. Growth is expected to average 3¼ per cent in 2001-02 and around 4 per cent through the year to the June quarter 2002.

net exports are contributing to growth for the first time since the Asian crisis

For the first time since the Asian crisis, net exports will contribute strongly to economic growth in Australia in 2000-01. Solid export growth is expected in 2001-02.

lower interest rates and the beneficial impact of the more generous FHOS will flow through to employment growth

Lower interest rates and the beneficial impact of the more generous FHOS should reinforce a rebound in activity in the labour-intensive construction sector, flowing through to stronger employment growth in the second half of 2001-02.

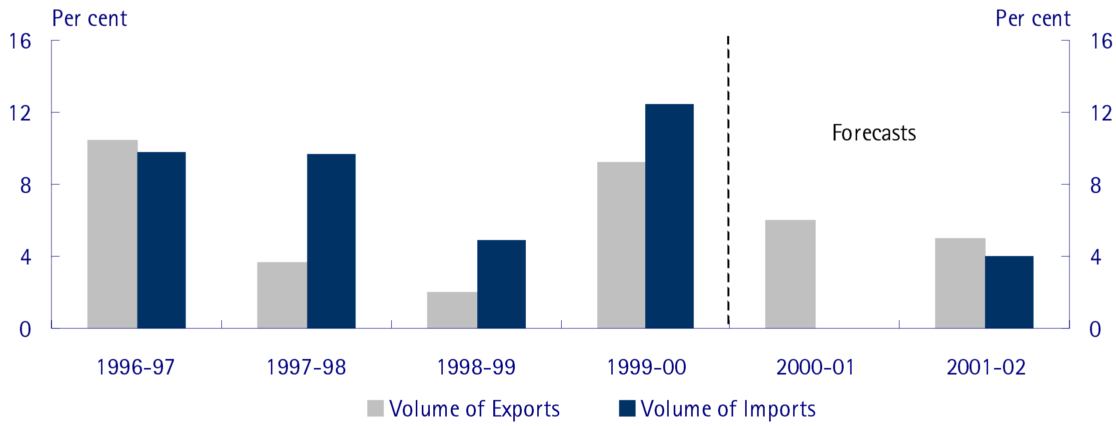
inflation is forecast to decline

Inflation is forecast to decline in 2001-02 to around 2 per cent.

Solid Export Growth and a Lower Current Account Deficit

Solid export growth is expected in 2001-02, despite slower growth in the world economy. Australia's exporters are more competitive due to the lower exchange rate and the implementation of tax reform.

GROWTH IN EXPORTS AND IMPORTS[(a)]



(a) Growth in imports in 2000-01 is rounded to zero.

solid export growth is expected in 2001-02

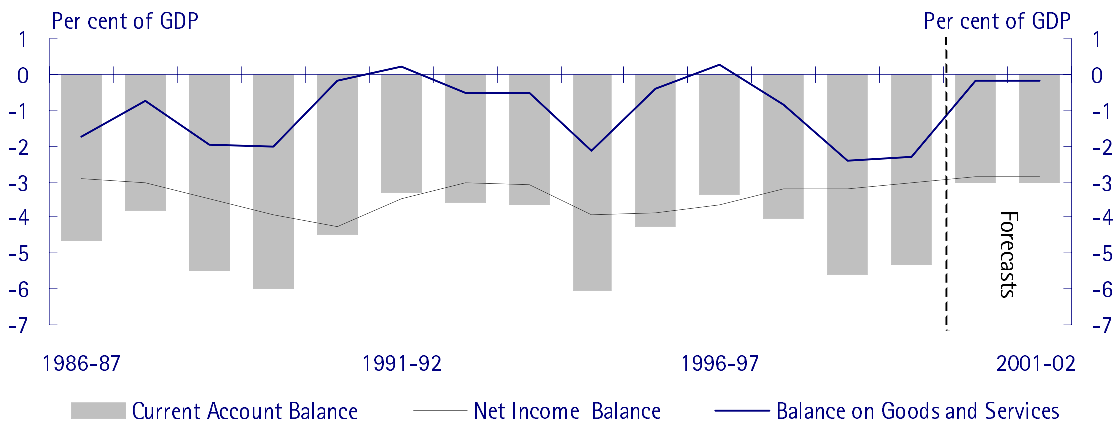
Export volumes are expected to grow by a solid 5 per cent in 2001-02.

Australia's exporters are benefiting from the lower exchange rate and recent tax reforms. This will help Australian exporters gain market share, supporting export growth in the face of slower world growth. That said, if world growth slows further than expected, export growth could be lower.

Australia's strong trade performance means the current account deficit will fall

Australia's strong trade performance is contributing to a much lower current account deficit, expected to be around the lowest level in a decade as a share of GDP in 2001-02.

CURRENT ACCOUNT BALANCE



The Unemployment Rate to Stabilise

Australia's sustained period of rapid economic growth over recent years was accompanied by strong growth in productivity and employment and falling unemployment. The slower economic growth during 2000-01 has resulted in a slight upturn in the unemployment rate, which is expected to average around 7 per cent in 2001-02.

Australia's unemployment rate is expected to be broadly stable at around 7 per cent in 2001-02

The expected pick-up in economic growth should see the unemployment rate stabilise at an average of around 7 per cent in 2001-02.

Since March 1996, the number of people employed has risen by around 824,400 or 9.9 per cent.

unemployment is well below levels inherited by the Government

Over the same period, the unemployment rate fell from 8.2 per cent to a decade low of 6 per cent in September 2000, before rising to 6.8 per cent in April 2001.

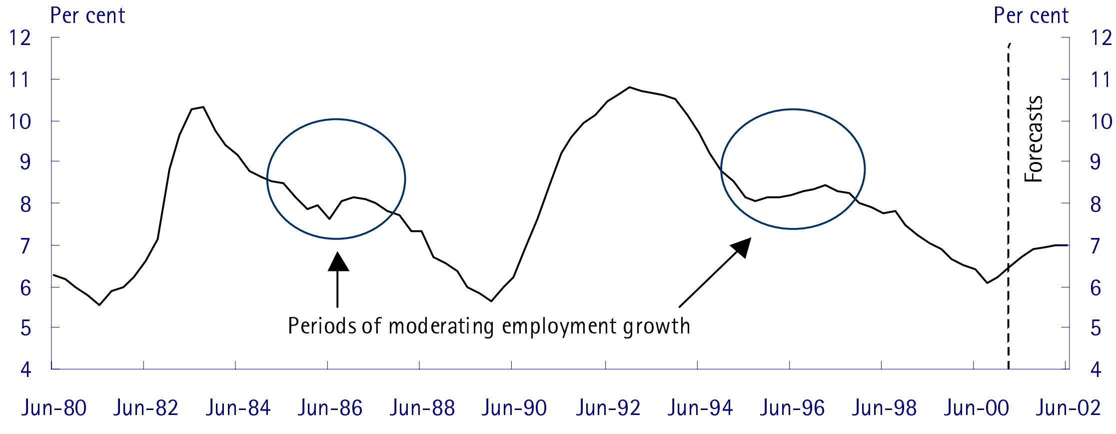
employment growth is set to improve in the second half of 2001-02

Employment is forecast to grow by around 2 per cent in 2000-01 and by about 1 per cent in 2001-02, showing stronger growth in the second half of the year.

unemployment is expected to resume a gradual downward trend over the medium term

The current slight upturn in the unemployment rate is similar to that experienced during previous episodes of short-lived slow downs in economic growth (circled in the chart below). With the positive outlook for economic growth, unemployment is expected to resume a gradual downward trend over the medium term.

UNEMPLOYMENT RATE



Inflation to Decline

Inflation is expected to decline in 2001-02.

inflation is set to decline in 2001-02

The Consumer Price Index is expected to increase by around 2 per cent in 2001-02.

Further measures in *The New Tax System* will help to reduce consumer prices, as will an expected gradual easing in world oil and domestic petrol prices.

inflation has been affected by one-off factors in 2000-01

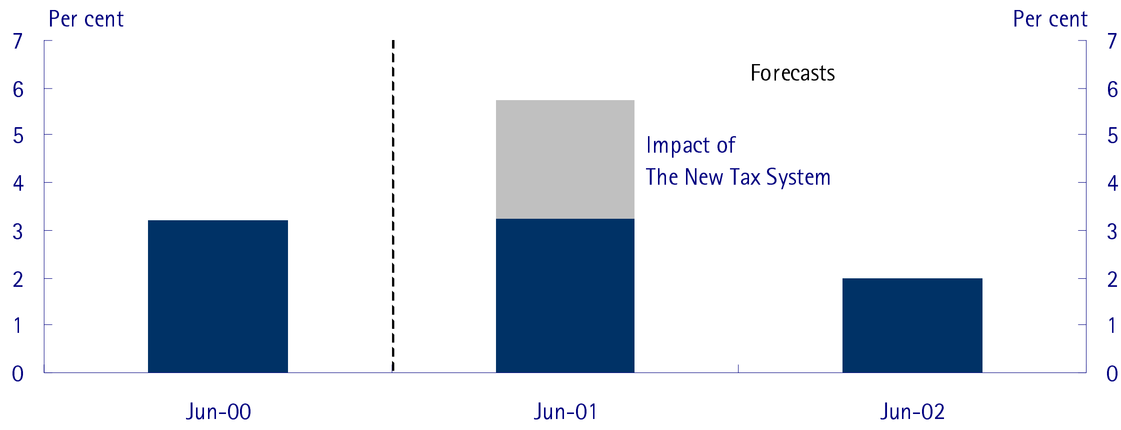
Inflation has been affected by one-off factors in 2000-01, including the one-off effect of the introduction of *The New Tax System* and higher world oil and domestic petrol prices. The Consumer Price Index is expected to increase by 5¾ per cent through the year to the June quarter 2001.

Households have been compensated generously for the one-off price changes flowing from *The New Tax System*. Leaving these price changes aside, inflation is expected to be 3¼ per cent through the year to the June quarter 2001.

low inflation has allowed for low interest rates

The low inflation outlook has allowed interest rates to fall to around historically low levels.

INFLATION[(a)]



(a) Represents the increase in the CPI through the year to the June quarter of each year

Maintaining Strong Productivity Growth

Australia's prolonged economic expansion in the 1990s was driven by strong growth in productivity. Despite the recent slowdown in activity, Australia continues to enjoy the longer-run benefits of ongoing structural reform, a sound macroeconomic policy environment and the rapid adoption of new technologies. Australia has the potential to experience a second wave of strong productivity and economic growth in coming years.

ongoing structural reform and sound macroeconomic policies ensure that markets remain competitive

The combination of ongoing structural reform and a sound and responsible macroeconomic policy environment has transformed Australia into one of the most open and competitive economies in the world.

increased competition creates a strong incentive to apply new technology

Increased competition has provided Australian firms with a strong incentive to improve their core business processes by applying new technologies. Indeed, there is a fundamental interplay between increased competition and the adoption of new technology.

Australia has become a prolific user of new technology

As a result of this rapid adoption of new technology, Australians are now amongst the most intensive and sophisticated users of new technology in the world.

government policies are directly encouraging the efficient use and development of new technology

The Government provides substantial funding to encourage the efficient use and development of new technology. The recently announced innovation package invests $3 billion over five years, making it the largest group of measures ever proposed by an Australian government to foster innovation.

there is potential for a second wave of productivity growth in Australia

Combined with our sound policy framework, the use of new technologies will encourage strong and sustained productivity growth in the future.

productivity growth ensures long-term growth with more jobs

Strong productivity growth will provide a strong base for sustainable long-term growth, increased employment and significant improvements in living standards and real incomes.

Appendix A

Commonwealth Budget Aggregates

The table below shows the main accrual and cash budget aggregates for 1999-00 to 2004-05 for the Commonwealth General Government sector.

Commonwealth General Government Budget Aggregates

	Actual	Estimates		Projections		
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue ($b)	**166.6**	**161.0**	**158.8**	**164.9**	**175.5**	**185.7**
Per cent of GDP	26.3	24.0	22.6	22.1	22.2	22.1
Expenses ($b)	**154.4**	**157.6**	**160.9**	**166.8**	**173.1**	**179.0**
Per cent of GDP	24.4	23.4	22.9	22.4	21.9	21.4
Net operating balance ($b)	12.2	3.5	-2.0	-1.9	2.4	6.7
Net capital investment ($b)	-1.2	-2.0	-1.2	-0.4	-0.3	-0.2
Fiscal balance ($b)	**13.5**	**5.4**	**-0.8**	**-1.5**	**2.7**	**6.9**
Per cent of GDP	2.1	0.8	-0.1	-0.2	0.3	0.8
Underlying cash balance ($b)	**12.7**	**2.3**	**1.5**	**1.1**	**4.1**	**7.4**
Per cent of GDP	2.0	0.3	0.2	0.1	0.5	0.9
Memorandum item:						
Headline cash balance ($b)	22.2	8.5	4.7	-0.1	17.6	20.7

Appendix B

Spending Initiatives in the 2001-02 Budget

	2001-02 $m	2002-03 $m	2003-04 $m	2004-05 $m
Australians Working Together				
Helping people find jobs	11	104	103	106
Helping parents return to work	7	59	83	92
A fair go for mature age workers	3	22	56	66
Getting people the right help	6	34	43	60
A better deal for people with disabilities	6	59	55	57
Promoting self-reliance for indigenous Australians	4	15	28	36
Help to participate	10	131	184	196
More child care places	2	5	4	4
Community and business engagement	9	8	3	3
Planning for the future	1	1	2	1
Acknowledging Older Australians				
One-off payment to people of age pension age(a)	10	-	-	-
Telephone allowance - extension to Commonwealth Seniors Card Holders	27	22	22	23
Widening of Commonwealth Seniors Health Care Card eligibility	24	25	27	29
Exemption of superannuation from means tests - 55 to age pension age	98	99	102	104
Improved aged care services	7	11	5	5
One-off payment to former PoWs and civilian detainees of the Japanese(a)	-	-	-	-
Repatriation Pharmaceutical Benefits Scheme - extended access	20	33	32	30
Enhancing our Health System				
Increase in rebates for GPs	49	83	83	86
Additional practice nurses for Rural Australia	15	28	30	32
Proactive GP management of asthma	8	12	14	14
Mental Health: More Options, Better Services	4	25	40	52
Cervical screening initiatives for GPs	5	16	23	28
Integrated National Diabetes Programme	9	12	13	15
Alcohol Education and Rehabilitation Foundation	10	24	40	41
After hours/emergency primary medical care	9	10	12	13
Improved primary health care for Indigenous communities	-	-	20	21
Other health measures	35	30	11	-28
Practical Measures to Address Indigenous Disadvantage				
Expanding the supply of indigenous housing	3	23	25	25
Increased funding for the Commonwealth native title system	20	25	24	18
Building Our Defence Force Capabilities				
Defence White Paper	507	1039	1465	2042
Retention of surplus East Timor Funds	100	70	-	-
Rural and Regional Australia				
Response to foot and mouth disease and other quarantine risks	155	143	141	144
Higher education places for regional universities and campuses	4	8	11	13
Telecommunications Service inquiry response	28	44	56	14
Roads to Recovery local roads programme	300	300	300	150
Other				
Backing Australia's Ability - An Innovation Action Plan for the Future	174	392	612	806
Natural Heritage Trust Extension	-	100	233	233
Backing Australia's Sporting Ability Package	38	41	41	42
Assistance for the Melbourne 2006 Commonwealth Games	-	-	60	30
First Home Owners Scheme	90	-	-	-
Full input tax credits for motor vehicles and GST calculation adjustment	710	85	5	5
Roads to outer metropolitan areas	50	100	125	125
Other Measures	65	-46	407	-78
Total Impact of all Expense and Capital Measures	2632	3192	4537	4653

(a) Most payments are expected to be made by 30 June 2001.

Appendix C

Detailed Economic Forecasts for 2001-02

	(Outcomes) 1999-2000	(Estimates) 2000-01	(Forecasts) 2001-02
Demand and Output(a)(b)			
Household consumption	4.5	2 3/4	3
Private investment			
Dwellings	12.4	-25	5
Total business investment(c)	3.6	0	5
Other buildings and structures(c)	-11.0	-22	6
Machinery and equipment(c)	8.8	5	3
Public final demand(c)	5.6	2 1/4	2 1/4
Change in inventories(d)			
Private non-farm	-0.6	1/4	- 1/4
Farm and public authorities	0.0	0	0
Gross national expenditure	4.5	1/2	3
Exports of goods and services	9.2	6	5
Imports of goods and services	12.5	0	4
Net exports(d)	-0.9	1 1/4	1/4
Gross Domestic Product(a)	4.3	2	3 1/4
Non-farm product	4.4	2 1/4	3
Farm product	4.0	-6	7
Other Selected Economic Measures(a)			
Prices and wages			
Consumer Price Index (Headline)(e)	3.2	5 3/4	2
Average earnings(f)	2.8	3 1/2	3 3/4
Labour market			
Employment	2.7	2	1
Unemployment rate (per cent)	6.6	6 1/4	7
External accounts			
Terms of trade	4.3	4	- 3/4
Current account balance			
$billion	-33.7	-20 1/2	-20
Percentage of GDP	-5.3	-3	-3

(a) Year average data and percentage change on preceding year, unless otherwise stated.
(b) Chain volume measures.
(c) Excluding transfers of net second-hand asset sales from the public sector to the private sector.
(d) Percentage point contribution to growth in GDP.
(e) Percentage change through the year to the June quarter of each year.
(f) 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 2004-05. 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	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1974-75	15,325	22.9	15,275	22.9	50	0.1	-1,901	-2.8
1975-76	18,316	23.2	19,876	25.2	-1,560	-2.0	-341	-0.4
1976-77	21,418	23.6	22,657	24.9	-1,239	-1.4	898	1.0
1977-78	23,491	23.7	25,489	25.7	-1,998	-2.0	2,896	2.9
1978-79	25,666	22.8	27,753	24.7	-2,087	-1.9	4,983	4.4
1979-80	29,780	23.3	31,041	24.3	-1,261	-1.0	6,244	4.9
1980-81	35,148	24.2	35,260	24.3	-112	-0.1	6,356	4.4
1981-82	40,831	24.6	40,394	24.3	437	0.3	5,919	3.6
1982-83	44,675	24.9	47,907	26.7	-3,232	-1.8	9,151	5.1
1983-84	49,102	24.3	55,966	27.6	-6,864	-3.4	16,015	7.9
1984-85	57,758	25.7	63,639	28.4	-5,881	-2.6	21,896	9.8
1985-86	64,845	26.2	69,838	28.2	-4,993	-2.0	26,889	10.8
1986-87	73,145	26.9	75,392	27.7	-2,247	-0.8	29,136	10.7
1987-88	81,217	26.2	79,440	25.6	1,777	0.6	27,359	8.8
1988-89	88,369	25.2	82,202	23.4	6,167	1.8	21,982	6.3
1989-90	95,517	24.9	88,882	23.1	6,635	1.7	16,121	4.2
1990-91	97,705	24.6	97,333	24.5	372	0.1	16,936	4.3
1991-92	92,966	22.9	104,551	25.8	-11,585	-2.9	31,132	7.7
1992-93	94,448	22.1	111,484	26.1	-17,036	-4.0	55,218	12.9
1993-94	100,142	22.3	117,252	26.1	-17,110	-3.8	70,223	15.6
1994-95	109,720	23.2	122,901	26.0	-13,181	-2.8	83,492	17.6
1995-96	121,105	23.9	131,182	25.9	-10,077	-2.0	95,831	18.9
1996-97	129,845	24.4	135,126	25.4	-5,281	-1.0	96,281	18.1
1997-98	135,779	24.0	134,608	23.8	1,171	0.2	82,935	14.7
1998-99	146,521	24.6	141,033	23.7	4,190	0.7	70,402	11.8
1999-00	165,828	26.2	153,157	24.2	12,671	2.0	53,106	8.4
2000-01(e)	159,118	23.7	156,869	23.3	2,253	0.3	42,785	6.4
2001-02(e)	162,823	23.2	161,391	23.0	1,520	0.2	37,660	5.4
2002-03(p)	167,897	22.5	166,846	22.4	1,063	0.1	36,571	4.9
2003-04(p)	177,495	22.5	173,392	21.9	4,103	0.5	17,912	2.3
2004-05(p)	187,374	22.4	179,972	21.5	7,403	0.9	-4,660	-0.6

(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.
Balance on goods and services	The excess of exports over imports (of goods and services).
CAD	Current Account Deficit.
Commonwealth	Refers to the Commonwealth General Government Sector (unless stated otherwise).
CPI	Consumer Price Index.
Euro Area	The Euro Area member countries are: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.
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.
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.
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 capital investment	The change in non-financial assets owned by the government. It measures the net effect of purchases, sales and consumption of non-financial assets during an accounting period.
Net debt	The difference between gross debt and financial assets.
Net Income Balance	The excess of the income earnt by Australians on their foreign assets and the income earnt by foreigners on Australian 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.
Net worth	The residual interest in the assets of a reporting entity after the deduction of its liabilities.
OECD	Organisation for Economic Co-operation and Development.
Outlay	A cash payment.
Productivity	The relationship between the output of goods and services and the inputs of resources used to produce them.
Underlying cash balance	Revenue less underlying outlays (defined as outlays excluding net advances).