2002-03 Budget

Overview

Circulated by the Hon. Peter Costello, M.P., Treasurer of the Commonwealth of Australia, 14 May 2002.

This document summarises the Commonwealth Budget, recent economic developments and the outlook for 2002-03, as presented in the Budget Papers.

Contents

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The 2002-03 Budget

The 2002-03 Budget provides for an underlying cash surplus and lays the foundations for surpluses right across the forward estimates. It delivers the Government's election commitments and responds to the challenges of an uncertain international environment, particularly since the 11 September 2001 terrorist attacks in the United States.

a surplus budget

The Government is budgeting for a $2.1 billion surplus in 2002-03. Most countries in the OECD, including the United States and the United Kingdom, are expected to be in deficit in 2002 and 2003.

low government debt

Australia will have one of the lowest levels of government debt in the industrialised world in 2002-03. By the end of 2002-03 the Coalition Government will have reduced Labor's debt by $61 billion.

safeguarding Australia and delivering our commitments

The Budget provides for greater spending on defence and protecting the integrity of Australia's borders. Additional funding is provided to upgrade domestic security following the 11 September 2001 terrorist attacks in the United States. The Budget also delivers the Government's election commitments, including funding for the Baby Bonus, superannuation and aged care.

planning for future budget pressures

The Budget includes the first Intergenerational Report under the *Charter of Budget Honesty*. Over a 40 year time horizon, the report projects pressure on government finances because of growth in health, aged care and age pension spending. Forward planning is important to face the challenges of population ageing and increased costs of accessing the latest medical advancements.

COMMONWEALTH BUDGET BALANCE

	Actual	Estimates		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Underlying cash balance ($b)	5.6	-1.2	2.1	3.7	4.6	7.1
Per cent of GDP	0.8	-0.2	0.3	0.5	0.6	0.8
Fiscal balance ($b)	5.9	-3.0	0.2	2.6	5.0	7.7
Per cent of GDP	0.9	-0.4	0.0	0.3	0.6	0.9

The Australian Economy: Building on Strength as the World Recovers

While many of our trading partners experienced slower growth in 2001, Australia's economy continued to perform strongly. Australia was one of the strongest developed economies in 2001, and growth is set to remain robust over the coming year.

weathering the global slowdown

As world economic growth slowed, Australia's economy continued to perform strongly. The US entered a mild recession from the early part of 2001. Australia's largest trading partner, Japan, entered recession for the third time in the last ten years. Growth in the European Union stalled with Germany, the major economy in the region, also entering recession.

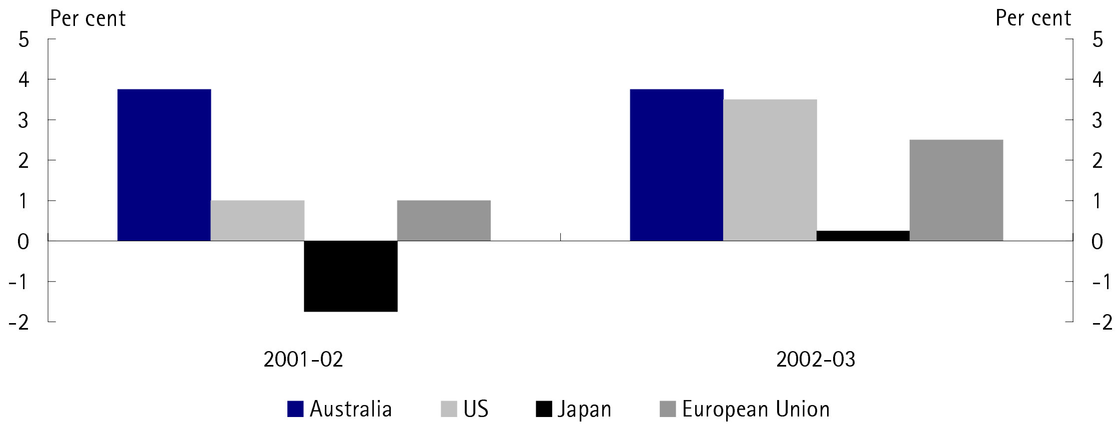
trading partners' output weak

The economies of Australia's major trading partners in East Asia also weakened, with output falling in several countries in the region.

outperforming most other developed nations

Despite this, Australia's economy grew strongly. Growth in 2001 was higher than in each of the largest seven economies (G7) and twice as fast as the OECD average. Australia's strong performance should continue, with growth averaging 3¾ per cent in 2002-03. The IMF and OECD both forecast the Australian economy to be one of the best performing advanced economies in 2002 and 2003.

AUSTRALIA'S STRONG ECONOMIC GROWTH FORECASTS



Examining the Outlook for Future Budgets

Future Commonwealth governments could face significant fiscal pressure from an ageing population and the high costs of technological advances in health care.

Australia's population is getting older

Like many other countries, Australia's population is ageing. Australian women are having fewer children and people are living longer. Together these lead to a smaller proportion of young people in the population and a larger proportion of older people.

which may place pressures on future government finances

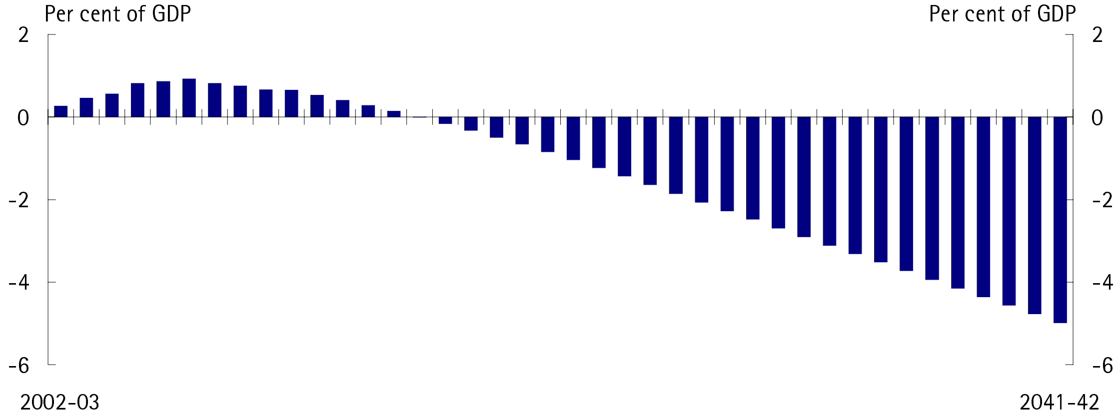
The Intergenerational Report presented with this Budget considers how much pressure the ageing of the population and other cost pressures could place on future government finances.

spending may exceed revenue by 5 per cent of GDP by 2042

If current trends continue, Commonwealth Government spending could rise significantly over the next 40 years. Assuming that revenue remains around the current share of GDP, rising levels of spending would push the Budget into deficit. The gap between spending and revenue could grow to 5 per cent of GDP by 2042 which amounts to $87 billion in today's dollars.

A widening gap between spending and revenue could jeopardise Australia's future economic prospects. Therefore, it is sensible to consider now the policies that would better position us to respond to the likely pressures.

AN EMERGING GAP BETWEEN REVENUE AND SPENDING
OVER THE NEXT 40 YEARS



Spending on Health, Aged Care and Age Pensions

In the future, three key social areas of government spending are most likely to have escalating growth. These are health, aged care and age pensions.

Spending on health, aged care and age pensions is likely to grow because the population is ageing and older people are the biggest users of the health system.

spending on health, aged care and age pensions to grow

In addition, around three-quarters of the projected growth in health spending over the next four decades reflects the expected use of newer, high cost technologies.

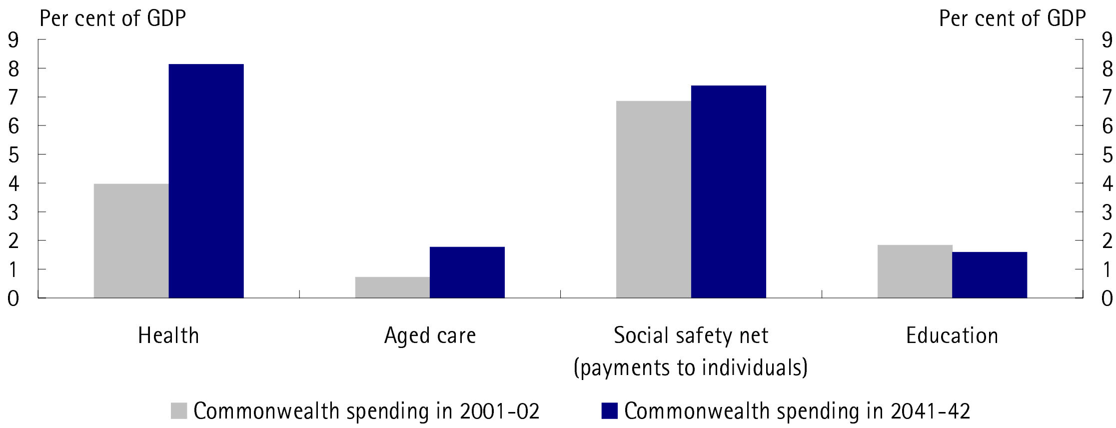
technological advances, not population ageing, are the main reason for more health spending

Lower birth rates are likely to result in a reduced rate of growth in government spending on education and payments to families. This is because the number of people aged under 18 is expected to fall slightly over the next 40 years.

population ageing will not increase spending in all areas

Spending in other areas such as the environment and defence is less sensitive to population change. This spending is assumed to remain constant as a proportion of GDP.

COMMONWEALTH SPENDING ON HEALTH AND AGED CARE COULD DOUBLE FROM 2002 TO 2042



Living Within Our Means

While the ageing of the population and growth in health care costs may lead to spending pressures, Australia is better placed to deal with these challenges than most other countries. Nevertheless, early action to relieve emerging spending pressures will avoid the need for more drastic action in the future.

future spending pressures will need to be managed responsibly

Over the next 40 years, Commonwealth governments will face significant challenges. Future spending pressures will need to be managed responsibly so the quality of life of all Australians continues to improve.

Australia is well placed to meet the challenges of an ageing population

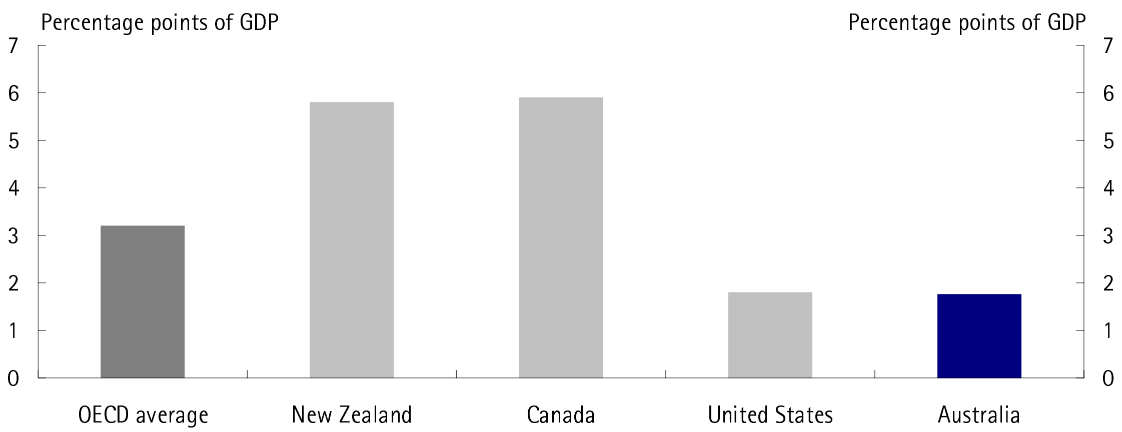
Australia's strong fiscal and economic position, maturing superannuation system, targeted age pensions and low net debt ensures that we are relatively well placed to meet the challenges. Australia's high level of participation in superannuation means that many of the people aged over 65 in the future will have saved for their retirement, reducing the pressure on age pension spending growth.

the Government has taken measures in this Budget that address future pressures

Sound decision making will ensure that the Commonwealth's Budget remains strong. This is why the Government has taken measures in this Budget to address rapid growth in the Pharmaceutical Benefit Scheme (PBS) and Disability Support Pension.

The changes to the PBS will ensure Australians can continue to have affordable access to necessary medicines. The Government's welfare reforms will encourage more people to join the workforce by providing greater opportunities for those who have some capacity to work.

AUSTRALIA'S PENSION SPENDING TO GROW RELATIVELY SLOWLY IN THE FUTURE[(a)]



(a) Percentage point of GDP increase by 2050.

Strong Defence

Defence spending will increase to support the War Against Terrorism, maintain the integrity of our borders and further improve longer-term Defence Force capabilities. Including funding provided under the Defence White Paper, defence spending in 2002-03 will be over $1.3 billion higher than in 2000-01, bringing total spending to $14.1 billion.

deployment following 11 September 2001

Following the events of 11 September 2001, the Government has directed extra funding to Defence to cover the additional costs of deploying armed forces to Afghanistan and the Middle East, at an increased tempo of Defence operations above the White Paper funding levels.

patrolling northern waters

The Defence Force and Customs are playing a key role in maintaining the integrity of our borders.

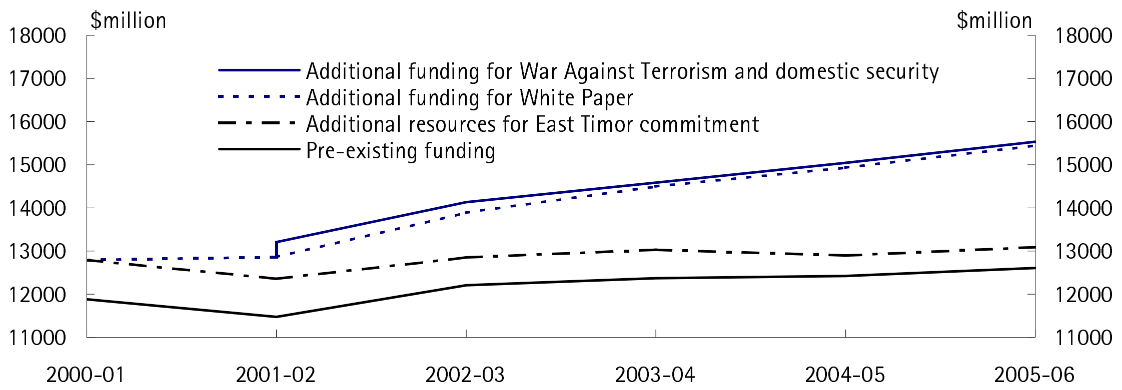
Incident Response Regiment and another Tactical Assault Group

New funding will increase the Defence Force's ability to deal with potential terrorist threats and incidents. The Government will establish a permanent Incident Response Regiment with capacity to respond to Chemical, Biological, Radiological, Nuclear and Explosive (CBRNE) incidents and establish a permanent special forces Tactical Assault Group for counter terrorism on the east coast to support the existing one on the west coast.

meeting Defence White Paper commitments

The Government continues to provide funding to improve the ability of the Defence Force to defend Australia and its national interests. Consistent with the Government's ten-year defence plan, set out in the Defence White Paper, the Government is funding major projects such as acquiring armed reconnaissance helicopters and upgrading weapons on Australia's ANZAC frigates.

RISING COMMONWEALTH SPENDING ON DEFENCE



Protecting Australia's Borders

Border protection is a key priority in this Budget. The Government is providing additional funding to reduce unauthorised boat arrivals in Australia.

strong border protection

The Government is committed to stronger border protection and will implement measures including enhanced Defence and Coastwatch activities and offshore processing to deter unauthorised boat arrivals. It also will provide incentives for the voluntary return of some people.

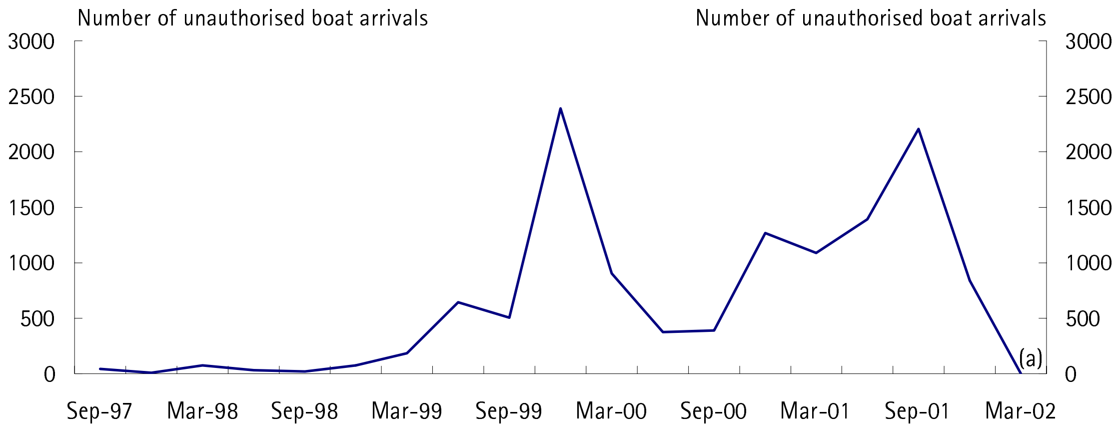
offshore processing and new facilities on Christmas Island

Net additional funding of $536 million over four years will be provided to meet the costs of offshore processing in other countries and Australian external territories. This includes $350 million in savings from reduced onshore processing. An extra $219 million over five years will allow the construction and maintenance of a new purpose-designed immigration, reception and processing centre on Christmas Island.

international solutions

The Government also is providing $6 million over four years to encourage the voluntary return and resettlement of asylum seekers who apply unsuccessfully for refugee status. The Government has established an Ambassador for People Smuggling Issues, and provided funding of $75 million over four years for a Regional Cooperation Agreement to develop regional strategies to address this global problem.

UNAUTHORISED BOAT ARRIVALS



(a) There have been no unauthorised boat arrivals from 1 January 2002 to 30 April 2002.

Upgrading Domestic Security

In response to the terrorist attacks of 11 September 2001, the Government is providing additional funding of $1.3 billion over five years to upgrade security within Australia.

improving aviation security

Airport security will receive an additional $190 million. Armed Australian Protective Service officers will travel on selected international and domestic flights, and additional Australian Protective Service officers and explosive detector dogs will guard Australia's airports.

identifying threats

The Government has provided an additional $539 million to the Australian Federal Police, Australian Protective Service, Customs and Australian security intelligence agencies to assist in identifying potential security threats.

increasing Australia's capacity to respond to security incidents

A further $420 million will enhance the Commonwealth Government's capacity to respond to possible future security incidents. New funding will establish a second Australian Defence Force Tactical Assault Group, a permanent incident response capability and double the Australian Federal Police's Strike Team capability. These officers can intervene rapidly and effectively to remove security threats.

Additional Funding for Upgrading Domestic Security

	2001-02 ($m)	2002-03 ($m)	2003-04 ($m)	2004-05 ($m)	2005-06 ($m)	Over 5 years(a) ($m)
Upgrading domestic security						
Improved aviation security	21	40	41	47	41	190
Identification of threats	20	111	118	136	155	539
Increased capacity to respond to security incidents	87	114	82	66	71	420
Total expense measures(a)	127	265	241	250	266	1149
Total capital measures	3	27	50	54	24	159
Total gross expenditure(a)	130	292	291	304	291	1308

(a) Figures may not add exactly owing to rounding.

Baby Bonus

The Baby Bonus provides further tax relief to families. It will be available to parents of a child born on or after 1 July 2001. Families can receive up to a maximum of $2,500 each year until the child turns five. There will be a minimum of $500 each year for parents with annual incomes of $25,000 or less.

one of the hardest times for families financially can be the birth of a first child

The Baby Bonus is a refundable tax offset that recognises that one of the hardest times for families financially can be the birth of a first child. This is a time where one parent often gives up or reduces paid employment to care for the child.

available to children born on or after 1 July 2001

The Baby Bonus will be available for first children born on or after 1 July 2001. However, as a transitional measure, it also will apply to a child born on or after 1 July 2001 for families who already have children. Parents adopting or otherwise gaining legal custody of a first child may also be eligible.

families may receive up to $2,500 per year for up to five years

Every year for up to five years, a parent will be able to claim up to $2,500 of the tax payable on their income earned in the year prior to the birth of their child. Claims can be made in tax returns lodged from 1 July 2002.

a guaranteed $500 per year for parents with incomes below $25,000

A minimum annual payment of $500 will be available to a parent with an annual income of $25,000 or less in the year they claim the Baby Bonus. This will ensure that low-income families will benefit from the measure.

if the mother returns to work, she may transfer the Baby Bonus to her spouse

The Baby Bonus will generally be paid to the mother. If she returns to work part time, she will still be eligible for the Baby Bonus, but the entitlement will be reduced in proportion to the income she earns. Where the mother returns to work and the father stays home to take care of the child, the benefit will be able to be transferred to him. A father with sole legal responsibility for the care of a child may also be eligible.

it will benefit some 600,000 families

It is expected that around 245,000 mothers and their families will benefit from the Baby Bonus in the first year and eventually it will deliver benefits to some 600,000 families at any one time.

New Spending on Health

The Budget contains a number of initiatives to help maintain the good health of the Australian people.

improving access to GPs in outer metropolitan areas

The Government will introduce changes so another 150 doctors will work in outer-metropolitan areas. This will mean better access to medical services for families living in these areas.

better treatment for rural and regional cancer patients

The Government will provide $73 million in funding over four years to build up to six new radiation oncology facilities outside the capital cities and fund their operation. This will reduce the distance and time that rural and regional patients must travel to access care. Part of the funding also will be used to attract and retain appropriately trained staff to the new facilities.

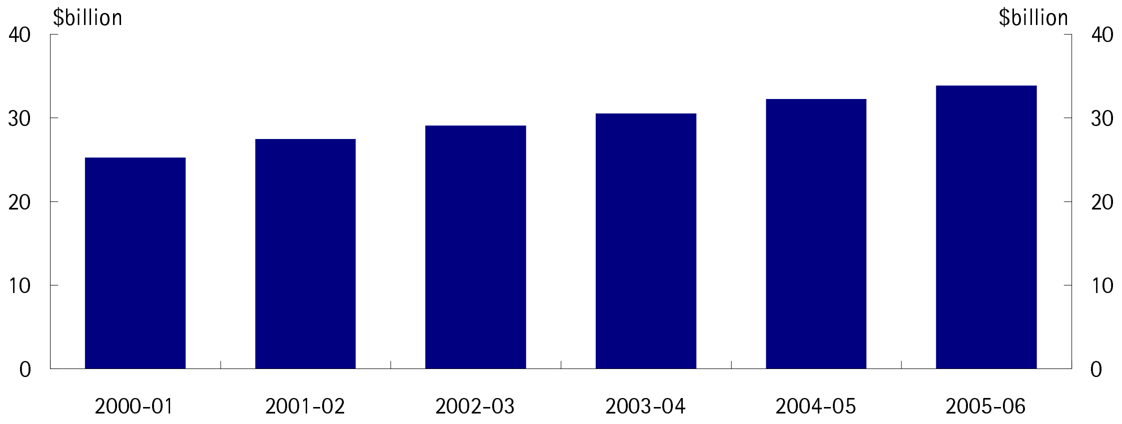
improving public safety

To improve the safety of public places, the Government will fund a product development and implementation strategy for the introduction of retractable needle and syringe technology in Australia.

Visudyne Therapy

A new medical service, Visudyne Therapy, will be available under the Medicare Benefits Schedule. Visudyne Therapy is used to treat 'wet type' macular degeneration, a condition eventually leading to blindness and primarily affecting older Australians.

RISING COMMONWEALTH SPENDING ON HEALTH



Maintaining Affordable Access to Pharmaceuticals

This Budget introduces changes to reduce the cost of the Pharmaceutical Benefits Scheme, so all Australians can continue to have affordable access to necessary medicines.

growth in the Pharmaceutical Benefits Scheme

The Pharmaceutical Benefits Scheme (PBS) is growing rapidly. The PBS has grown from $1.2 billion in 1990-91 to $4.2 billion in 2000-01. In this Budget, the Government introduces changes so that consumers, doctors, industry and pharmacists all contribute to reducing the cost of the PBS.

changes for consumers

Concessional co-payments will rise by $1 to $4.60 and general co-payments will rise by $6.20 to $28.60 per prescription. These co-payments still only cover a small part of the total cost of the PBS. Safety net arrangements will continue to protect people who need a large number of medicines. These changes will save $1.1 billion over four years.

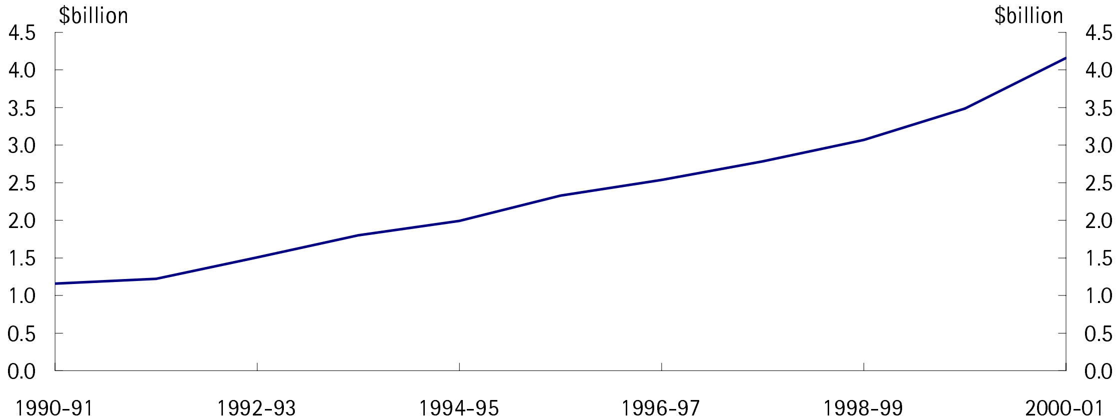
changes for doctors

A number of initiatives will be introduced to clarify PBS eligibility rules for doctors and to assist them to prescribe within these rules.

changes for the pharmaceutical industry and pharmacists

The pharmaceutical industry will provide information to doctors about the restrictions that apply to PBS medicines. The Government also will target pharmacy fraud. These measures will save $349 million over four years.

PHARMACEUTICAL BENEFITS SCHEME EXPENDITURE GROWTH FROM 1990-91 TO 2000-01



More funding for Aged Care

This Budget provides for better residential and community care services for older Australians.

more community care packages and support for carers

The Government will provide 6,000 additional Community Aged Care Packages to meet the needs of frail older Australians and enable them to continue living in their own homes. The Government also will provide additional funding to support carers of older Australians, carers of people with dementia and ageing carers of people with disabilities.

more aged care nurses and personal care staff

Aged care homes will receive increased subsidies to help them attract and retain more aged care nurses. Funding also will be provided for aged care nursing scholarships at rural and regional university campuses and for personal care staff in smaller homes to undertake courses in geriatric care.

greater assistance for rural and remote aged care homes

The Government will provide additional funding to help upgrade or replace small aged care homes in rural and remote areas, which face relatively high costs owing to their size and location.

Increased Spending on Aged Care

	2002-03 $m	2003-04 $m	2004-05 $m	2005-06 $m	Total(a) $m
Capital assistance for aged care in rural and remote Australia	8	18	26	27	79
Carers of older Australians	5	7	8	10	30
Increased residential aged care subsidies	51	52	53	54	211
More aged care nurses	3	6	9	9	26
More community aged care packages	2	6	17	44	69
More support for ageing carers of people with disabilities	5	7	8	10	30
More support for carers of people with dementia	2	5	6	6	20
Support for aged care training	3	5	6	7	21
Visudyne Therapy	32	40	36	33	140
Other initiatives	3	6	9	10	28
Total expenditure(a)	115	152	176	210	654

(a) Figures may not add exactly owing to rounding.

Next Steps for Welfare Reform

The Next Steps in welfare reform announced in this Budget build on previous initiatives including the Job Network and Australians Working Together. The Next Steps provides better targeted assistance to job seekers through the Job Network and increases support and requirements for people claiming or receiving the Disability Support Pension.

Assisting job seekers to gain employment

building on Australians Working Together and Job Network

The Job Network, introduced in 1998, provides better, more cost-effective support to job seekers and employers. Last Budget, the Australians Working Together package provided further assistance, obligations and incentives for people to work.

a third Job Network contract

In July 2003, the Government will renew Job Network contracts for the most effective providers and put others to tender. This will ensure Australians receive the best possible value for funding, while minimising disruptions to successful services.

more assistance for job seekers and support for the long-term unemployed

Job seekers will receive further assistance with work-related costs such as training, wage subsidies and transport. They also will receive service delivery guarantees and increased access to job vacancies and job matching services. The Government will guarantee access for people unemployed for 12 months or more to Intensive Support customised assistance. This additional support, combined with access to the Job Seeker Account, will help get the long-term unemployed into work.

increased participation in Work-for-the-Dole

The Government will provide 8,500 additional Work-for-the-Dole places each year to give job seekers greater opportunity to participate.

overall costs

The combination of better targeting, more effective services and the move to fixed price contracts will result in savings under the Third Employment Services Contract.

Next Steps in Welfare Reform

Recognising and improving the capacity of people with disabilities

DSP recipients have doubled since 1990

Since 1990, the number of people receiving the Disability Support Pension (DSP) has more than doubled. One in nine Australians aged between 50 and 64 years presently receive DSP. Many people receiving DSP are less self-reliant than they could be with a better combination of assistance, incentives and participation requirements.

more new places for employment assistance and training

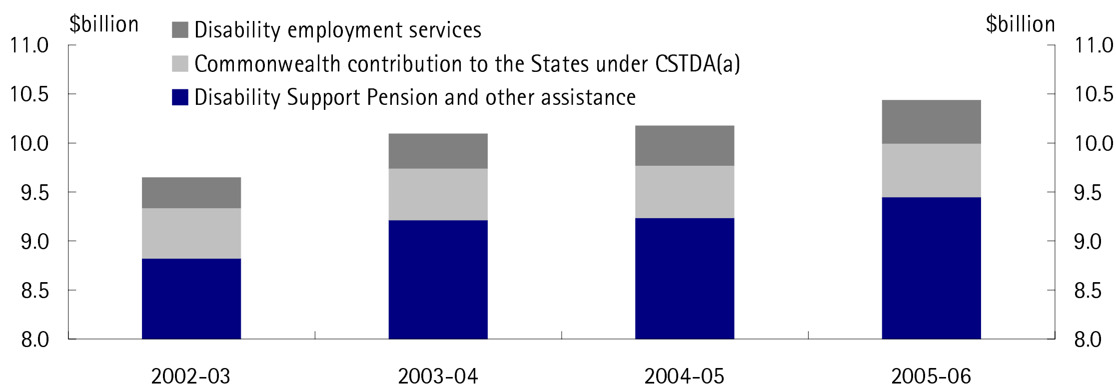
As part of Next Steps in welfare reform, the Government will give greater focus to improving the work capacity of people with disabilities. It will provide over 73,000 new places over three years in disability employment services, rehabilitation services, the Job Network, education and training and the Personal Support Programme.

changed eligibility to Disability Support Pension for people able to work at least 15 hours per week

Beginning in July 2003, DSP eligibility will be restricted to people with limited work capacity (people who are unable to work for 15 hours or more per week rather than people unable to work 30 hours per week as is currently the case). Centrelink will be able to consider whether a person could benefit from a broader range of services, including employment and rehabilitation assistance, to assist in reskilling for employment.

Most people affected by the changes who are unable to obtain work, or are undertaking work-related support programmes, will be eligible for Newstart Allowance. Changes to the DSP eligibility criteria should result in net savings of around $336 million over four years.

COMMONWEALTH EXPENDITURE ON ASSISTANCE TO PEOPLE WITH DISABILITIES



(a) Includes funding under the Commonwealth-State-Territory Disability Agreement (CSTDA) of $105.3 million in 2002-03, $107.3 million in 2003-04, $109.4 million in 2004-05 and $111.6 million in 2005-06 to assist States and Territories to address unmet need for disability services.

More Benefits for Veterans

In recognition of their service to Australia, more veterans will receive the Gold Card for health care and war widows will receive better compensation.

more veterans aged over 70 to receive the Gold Card, providing access to a full range of health care services

The Government has extended the Gold Card to Australian veterans who are 70 years of age and have qualifying service. This will cost $93 million over four years. Gold Card holders can access the full range of repatriation health care benefits including choice of doctor, concessional rate pharmaceuticals, optical care, physiotherapy, dental care, podiatry care and products, and chiropractic services.

better compensation for war widows

The Government will index the ceiling rate for the War Widows' Income Support Supplement twice yearly. This will cost $85 million over four years. Indexation will be based on increases in the Consumer Price Index and Male Total Average Weekly Earnings and will apply from 20 September 2002. This will ensure payments to lower-income war widows keep pace with other pensions.

Vocational Education

The Government is providing additional encouragement to employers to hire apprentices who are still at school, and to send their employees to train in new and emerging areas of industry. It also is encouraging mature age people to undertake IT training.

supporting apprenticeships

The Government will provide further incentives to employers who take on new apprentices who are still at school, and provide a subsidy of $1,100 per employee attending a training course in new and emerging areas of industry. This will cost an additional $54 million over four years.

IT training for mature age people

In addition, the Government will provide 11,500 vouchers each year for four years to mature age people to help them gain basic skills in computing and information technology. People who are welfare dependent will be given priority. This will cost $23 million over four years.

A Better Superannuation System

The Government is introducing a number of incentives to encourage Australians to improve their retirement incomes by making greater superannuation contributions.

benefits for low-income earners and higher fully deductible contribution limit for the self-employed

From 1 July 2002, qualifying low-income earners who make personal superannuation contributions and have annual incomes under $32,500 will benefit from the Government's co-contribution of up to $1,000 each year. Also, self-employed and other eligible people will be able to claim a full tax deduction for up to $5,000 of superannuation contributions, compared with $3,000 currently.

superannuation surcharge to fall

The surcharge, which is applied to the superannuation contributions of higher income earners, will fall by one-tenth of its current level in each of the next three years. The current maximum surcharge rate will fall from 15 per cent to 10.5 per cent in 2004-05.

quarterly Superannuation Guarantee and splitting of contributions

The Government will improve the Superannuation Guarantee system by requiring payments to be made at least quarterly from 1 July 2003. This will reduce the potential loss of superannuation benefits if bankruptcy or insolvency occurs. The Government also intends to allow members of accumulation funds to split future superannuation contributions with their spouses from 1 July 2003.

Superannuation Budget Measures

	2002-03	2003-04	2004-05	2005-06	Total(a)
	$m	$m	$m	$m	$m
Allow the Baby Bonus to be contributed to a superannuation fund	-	1	2	3	6
Choice of superannuation fund and portability	-	-	-	-	-
Continuing superannuation contributions to age 75	..	..	..	..	..
Government superannuation co-contribution for low-income earners	-	95	100	105	300
Higher fully deductible amount for self-employed persons	-	10	10	10	30
Quarterly Superannuation Guarantee contributions	17	-29	1	..	-12
Reduce the superannuation surcharge rate	-	50	120	200	370
Reduction of tax rate on excessive eligible termination payments	-	5	5	5	15
Splitting superannuation contributions between couples	-	3	4	4	11
Superannuation for life: child accounts	..	1	1	2	3
Allow departing temporary residents access to their superannuation	-70	-110	-75	-70	-325
Replacement of the rebate for personal superannuation contributions	-	-10	-10	-10	-30
Impact on the fiscal balance(a)	**-53**	**15**	**158**	**249**	**368**

(a) Figures may not add exactly owing to rounding.

Assisting Rural and Regional Australia

A range of measures will assist rural and regional residents. The Government is improving roads, providing greater access to television and radio, and promoting regional tourism.

better roads and extension of the successful Black Spot Programme

An additional $138 million provided to the National Highway and Roads of National Importance programme will fund projects including the Pakenham, Townsville and Alstonville bypasses. The Government also will extend the Road Safety Black Spot programme, providing a further $180 million over four years.

improved access to commercial radio and television services

The Government will provide greater access to commercial radio in areas where licensees cannot provide commercially viable coverage. It will provide funding of $5 million over three years as a one-off grant per service for site establishment and equipment. The Government also will provide an extra $13 million over three years to improve reception in identified areas that the existing Television Black Spot programme could not assist. Alternative reception solutions include digital multi-channelling, direct-to-home satellite links and local cabling.

Regional Tourism Programme

The Government has increased funding to the Regional Tourism Programme by $8 million over four years, to further assist business enterprises and other organisations deliver tourism attractions, products and services in regional Australia.

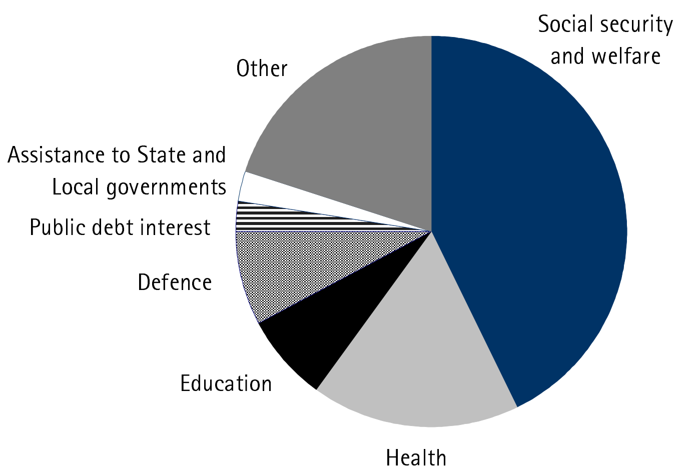
cancer treatment services and aged care

The Government will provide $73 million over four years for better access to cancer treatment services for rural and regional patients. It also will provide additional funding to help upgrade or replace small aged care homes in rural and remote areas and to increase the number of nurses and personal care staff in rural and regional aged care homes.

Expenses and Revenue: Major Categories

The Government's commitment to the welfare, health and education of all Australians remains strong, with spending in these areas representing two-thirds of all Commonwealth expenditure.

COMMONWEALTH GENERAL GOVERNMENT EXPENSES
BY FUNCTION (2002-03)

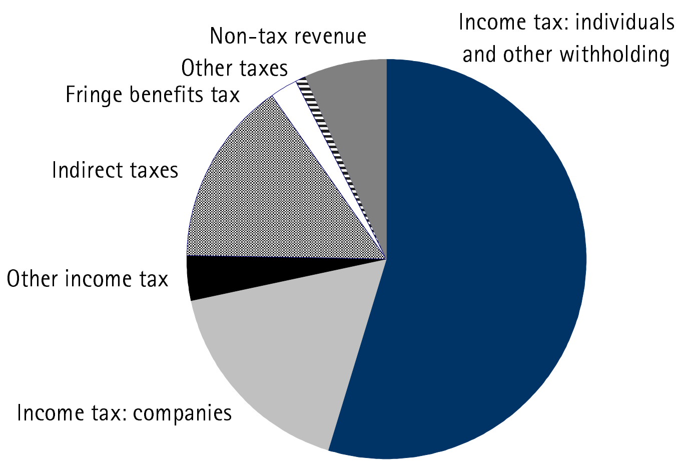


spending on social security, health and education represents around two-thirds of total expenses

spending on defence is increasing in response to the War Against Terrorism and the need for greater border protection

net annual public debt interest payments continue to fall as a result of reductions in Government net debt

COMMONWEALTH GENERAL GOVERNMENT REVENUE
BY MAJOR CATEGORIES (2002-03)



revenue proportions remain relatively unchanged since last year

income taxes represent three-quarters of total revenue

GST revenue is provided to the States and Territories and is not included here

Strong Record in Reducing Net Debt

This Budget provides for further reductions in net debt, continuing the Government's commitment to sustainable finances.

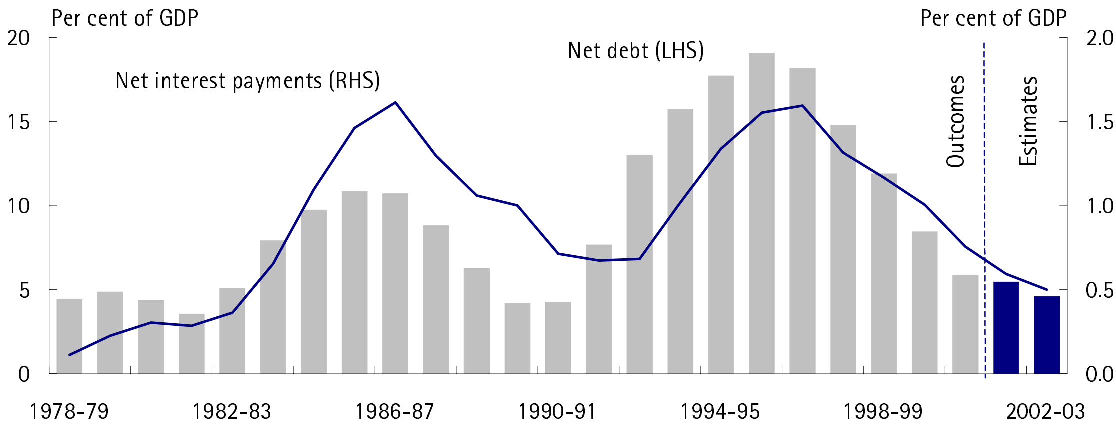
decreasing government debt means less interest payments

By June 2003 net debt will shrink to 4.6 per cent of GDP, its lowest level in more than a decade. The repayment of over $60 billion of net debt since 1996-97 has saved around $4¾ billion each year in interest.

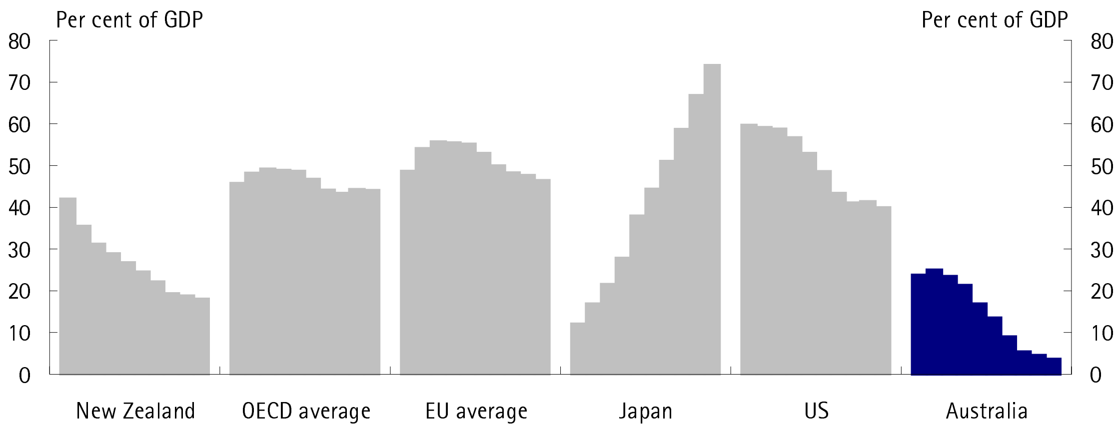
Australia a world leader in reducing debt

Compared with international experience, Australia's debt position remains very sound. Australia's net debt is well below the OECD average.

Commonwealth General Government Net Debt and Net Interest Outlays to GDP



Australia's General Government Net Debt Compares Favourably, 1994 to 2003[a]



(a) Data are for the total general government sector (that is, the aggregate of all levels of government including the social security sector).
(b) The above net debt data for Japan are inclusive of assets held by the social security system. Japan's net debt, calculated exclusive of these assets, was estimated by the IMF to be almost 100 per cent of GDP by April 2002.

Business Investment Set to Drive Growth

The Australian economy strengthened as 2001 progressed, with strong growth forecast for 2002-03. A pick up in business investment should drive this growth, accompanied by low inflation and falling unemployment.

bouncing back to stronger growth

The Australian economy rebounded strongly in 2001 after a growth pause in the second half of 2000.

falling unemployment expected in 2002-03

Strong economic growth is set to continue in 2002-03, aided by an improved world economic outlook. The unemployment rate is expected to fall gradually from an average of around 6¾ per cent in 2001-02 to around 6 per cent by mid 2003.

business investment to drive growth, with low interest rates, inflation in check and a moderate current account deficit

Strong growth in business investment in 2002-03 should drive overall economic growth. Low interest rates, higher business confidence, solid profitability and an improved world economic outlook underpin these favourable business investment prospects.

Inflationary pressures remain in check, with inflation expected to be within the 2-3 per cent target band.

Stronger business investment will be reflected in higher imports. The current account deficit will rise from recent lows, but remain moderate by historical standards.

ECONOMIC FORECASTS[(a)]

	Forecasts	
	2001-02	2002-03
Real GDP	3 3/4	3 3/4
Employment	1	1 3/4
Unemployment rate - June quarter (per cent)	6 1/2	6
Average earnings (wages)	3 1/4	4 1/4
Inflation	2 3/4	2 3/4
Current account deficit as per cent of GDP	-3 1/4	-4

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

Economic Growth in Australia to Remain Strong in 2002-03

Australia was one of the fastest growing developed economies over 2001, and growth is set to remain robust over the coming year.

the Australian economy was resilient despite the global slowdown

The Australian economy strengthened over 2001, in contrast to most of the rest of the world which experienced a slowdown in growth.

strong economic growth of 4 per cent by mid 2003

Economic growth in Australia is set to average 3¾ per cent in 2002-03, and to strengthen further to around 4 per cent through-the-year to the June quarter 2003. This is higher than forecast growth for any of the G7 economies.

business investment to rebound

Strong fundamentals should support a strong rebound in business investment in 2002-03. Investment in both plant and equipment and non-residential construction are expected to be very strong.

employment growth will support household consumption

Australia's recent strong economic and productivity growth is also leading to the creation of new jobs, which will support continued robust growth in household consumption.

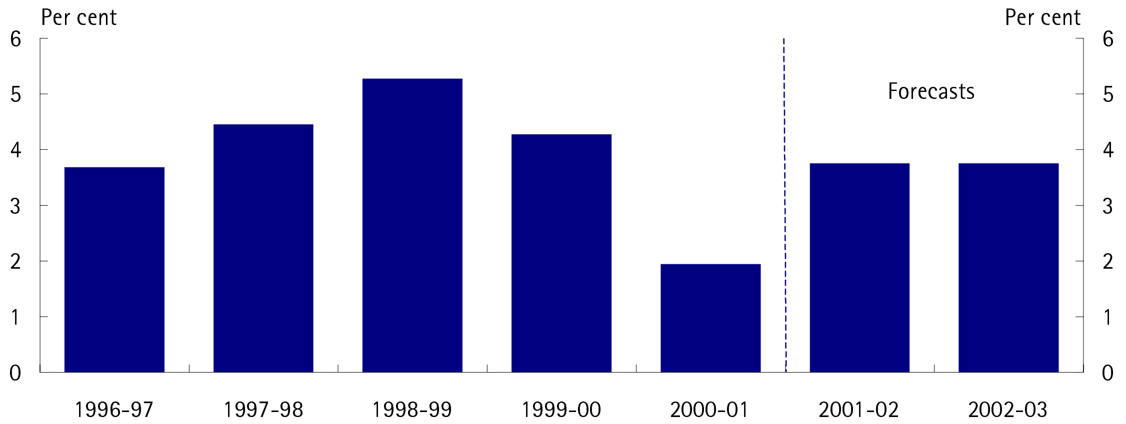
investment and household consumption will drive growth as residential construction and net exports ease

Strength in business investment, household consumption and exports will more than offset subdued activity in residential construction. Rapid growth in domestic demand, expecially business investment, will lead to faster growth in imports than in recent years.

inflation is forecast to remain within the target band

Inflation is forecast to remain within the RBA's target band at around 2¾ per cent in 2002-03, declining to around 2½ per cent through the year to the June quarter 2003.

ECONOMIC GROWTH IN AUSTRALIA



A Strengthening Labour Market

Labour market conditions in Australia are expected to strengthen over 2002-03. Australia's recent strong economic performance has seen the unemployment rate decline through the creation of new jobs. The unemployment rate is expected to fall to around 6 per cent in the June quarter 2003.

employment growth set to strengthen in 2002-03

With economic growth strengthening and employers becoming more confident, employment is forecast to grow by around 1 per cent in 2001-02 before strengthening to around 1¾ per cent in 2002-03.

growth in jobs has been strong under the present Government

Between March 1996 and April 2002 the number of people employed has risen by around 928,300 or 11.1 per cent.

the moderation in employment from one-off factors is behind us

The moderation in employment growth following the slowing in activity related to higher oil prices, the completion of Y2K related expenditure and the Olympics are now behind us. This, combined with strong GDP growth, will enable employment growth to be around the long-run trend over 2002-03.

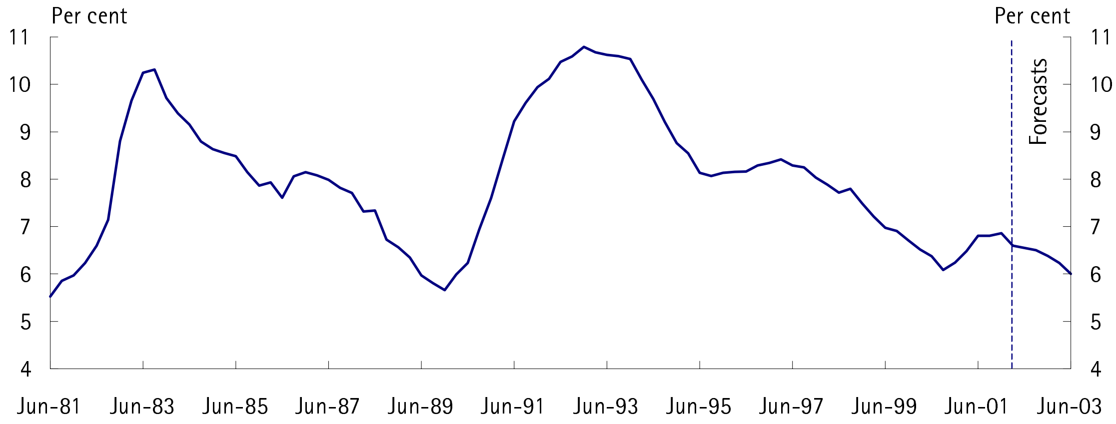
the unemployment rate is expected to steadily decline

With the more positive outlook for employment growth, the unemployment rate is expected to decline steadily over the forecast period. This would be consistent with previous periods where unemployment resumed a downward trend following a brief pause.

to around 6 per cent in the June quarter 2003

The unemployment rate is expected to trend down gradually over 2002-03 to around 6 per cent by mid 2003.

UNEMPLOYMENT RATE



Strong and Stable Terms of Trade

Defying history, Australia's terms of trade — the prices Australia receives for its exports relative to the prices paid for imports — has improved during the recent world slowdown. This has helped to increase real incomes in Australia and reduce inflationary pressures. Over recent years, the terms of trade has become more stable.

the terms of trade has historically been highly unstable and declining

Australia faced highly unstable and declining terms of trade through its history, driven by swings in world economic activity and declining commodity prices. The terms of trade, real income and inflation tended to move together.

but with greater stability and relative strength in recent years

In recent years, Australia's terms of trade has been more stable and relatively robust. Since 1999, the terms of trade has increased despite the world economic downturn. This helped the Australian economy stay strong in 2001. In addition, rising terms of trade now tend to reduce rather than increase inflation.

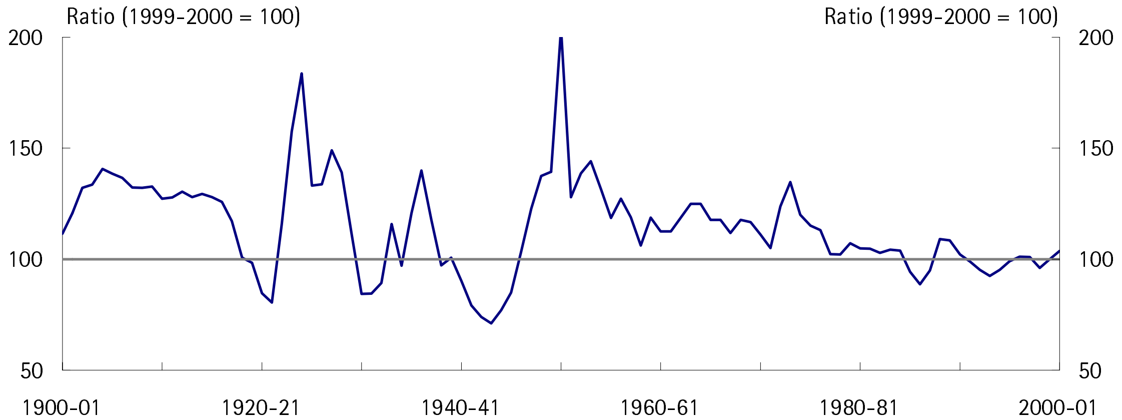
because of internationalisation, diversification of exports and falls in import prices

This dramatic change in terms of trade movements stems from greater internationalisation of the economy, increasing diversification of exports and significant falls in import prices, especially information and communications technology goods.

the terms of trade should remain more stable than in earlier decades and relatively strong

These favourable developments in the terms of trade can be credited to a more dynamic and competitive private sector. This follows substantial and continued microeconomic reform in an environment of sound macroeconomic policy. While the future path of the terms of trade remains uncertain, it is likely to be more stable and stronger than otherwise.

TERMS OF TRADE



Appendix A

Commonwealth Budget Aggregates

The table below shows the main accrual and cash budget aggregates for 2000-01 to 2005-06 for the Commonwealth general government sector.

COMMONWEALTH GENERAL GOVERNMENT BUDGET AGGREGATES[(a)]

	Actual	Estimates		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Revenue ($b)	**161.5**	**163.2**	**169.6**	**179.6**	**189.4**	**199.3**
Per cent of GDP	24.0	23.0	22.6	22.6	22.5	22.3
Expenses ($b)	**156.8**	**166.8**	**170.2**	**177.6**	**184.9**	**192.0**
Per cent of GDP	23.3	23.5	22.7	22.3	21.9	21.5
Net operating balance ($b)	4.7	-3.6	-0.5	2.0	4.5	7.3
Net capital investment ($b)	-1.2	-0.5	-0.7	-0.6	-0.5	-0.4
Fiscal balance ($b)	**5.9**	**-3.0**	**0.2**	**2.6**	**5.0**	**7.7**
Per cent of GDP	0.9	-0.4	0.0	0.3	0.6	0.9
Underlying cash balance ($b)	**5.6**	**-1.2**	**2.1**	**3.7**	**4.6**	**7.1**
Per cent of GDP	0.8	-0.2	0.3	0.5	0.6	0.8
Memorandum item:						
Headline cash balance ($b)	11.3	-1.8	4.6	14.5	15.4	18.1

(a) All estimates are based on Government Finance Statistics (GFS) standards, but with Goods and Services Tax (GST) revenue collected on behalf of the States and Territories netted off revenue and expenses.

Appendix B

Spending Initiatives in the 2002-03 Budget

This table provides a summary of the new expenditure measures in the 2002-03 Budget. More comprehensive information is provided in Budget Measures 2002-03, *Budget Paper No. 2.*

	2002-03 $m	2003-04 $m	2004-05 $m	2005-06 $m
Strong Defence				
Additional funding for War Against Terrorism	194.0	-	-	-
Protecting Australia's Borders				
Offshore processing in other countries	129.3	99.3	100.5	101.7
Offshore processing in Australian external territories	81.9	122.8	124.4	126.0
Immigration, Reception and Processing Centre on Christmas Island	137.5	2.3	2.3	2.3
Voluntary return and resettlement	3.0	1.7	1.1	-
Regional Co-operation Agreement	18.4	18.7	19.0	19.3
Upgrading Domestic Security				
Improved aviation security	40.2	40.9	47.3	41.1
Identification of threats	110.9	117.7	136.3	154.5
Increased capacity to respond to security incidents	113.7	82.4	66.4	70.8
Capital measures	26.8	50.2	54.3	24.4
Baby Bonus				
Introduction of the Baby Bonus	85.0	250.0	390.0	510.0
New spending on health				
More doctors in outer-metropolitan areas	12.0	18.0	25.0	25.0
Better treatment for rural and regional cancer patients	13.1	18.8	20.4	20.4
Maintaining Affordable Access to Pharmaceuticals				
Changes to co-payments and safety nets	-298.6	-281.2	-272.1	-263.4
Other measures	-85.8	-198.3	-266.0	-246.3
More Funding for Aged Care				
Total measures (see Aged Care page for details)	114.7	152.3	176.4	210.1
More Benefits for Veterans				
More veterans aged 70 years and over to receive the Gold Card	16.4	20.9	25.3	30.4
Better compensation for war widows	5.4	15.1	26.4	37.7
Vocational education				
Supporting apprenticeships	6.8	15.7	15.8	15.8
Vouchers for mature age people	5.8	5.8	5.8	5.8
Next Steps for Welfare Reform				
Assisting job seekers to gain employment	-	-0.3	-20.4	-44.0
Recognising and improving the capacity of people with disabilities	7.2	12.8	-98.2	-258.3
Assisting rural and regional Australia				
National Highway and Roads of National Importance	13.0	26.2	27.7	70.7
Road Safety Black Spot Programme	45.0	45.0	45.0	45.0
Improved access to commercial radio and television in 'black spots'	4.9	9.0	4.4	0.0
Regional Tourism Programme	1.5	1.5	2.5	2.5
Total impact of expenses and capital in 2002-03 Budget	1227.9	1632.3	1601.5	1570.5

Appendix C

Detailed Economic Forecasts for 2002-03

	(Outcomes)	(Estimates)	(Forecasts)
	2000-01	2001-02	2002-03
Demand and Output (a)(b)			
Household consumption	2.4	3 3/4	4
Private investment			
Dwellings	-20.6	16	-3
Total business investment(c)	-3.1	4	12
Other buildings and structures(c)	-20.1	6	14
Machinery and equipment(c)	0.6	3	12
Public final demand(c)	0.5	3 1/2	3 1/4
Change in inventories(d)			
Private non-farm	0.1	- 1/4	1/4
Farm and public authorities	-0.1	0	0
Gross national expenditure	-0.2	4 1/4	4 3/4
Exports of goods and services	7.0	-2	6
Imports of goods and services	-1.4	2	11
Net exports(d)	1.7	- 3/4	-1
Gross Domestic Product(a)	1.9	3 3/4	3 3/4
Non-farm product	2.2	3 3/4	3 3/4
Farm product	-3.4	1 1/4	3 3/4
Other Selected Economic Measures(a)			
Prices and wages			
Consumer Price Index	6.0	2 3/4	2 3/4
Average earnings(e)	3.9	3 1/4	4 1/4
Labour market			
Employment (Labour Force Survey basis)	2.1	1	1 3/4
Unemployment rate (per cent)	6.4	6 3/4	6 1/4
Unemployment rate (per cent)(f)	6.9	6 1/2	6
External accounts			
Terms of trade	3.1	2 1/4	2 3/4
Current account balance			
$billion	-18.9	-22 1/2	-29
Percentage of GDP	-2.8	-3 1/4	-4

(a) Year average data and percentage change on preceding year, unless otherwise stated.
(b) Chain volume measure.
(c) Excluding transfers of second-hand asset sales from the public sector to the private sector.
(d) Percentage point contribution to growth in GDP.
(e) Average non-farm compensation of employees (national accounts basis).
(f) The level in the June quarter of each year, seasonally adjusted.

Appendix D

Historical Budget and Net Debt Data

This appendix provides historical data and forward estimates for Commonwealth general government cash receipts, cash payments, cash surplus and net debt. The table below provides details of the cash budget aggregates for the period 1975-76 to 2005-06. Due to a break in the series following the introduction of new accrual accounting standards, receipts and payments data from 1999-2000 are not directly comparable with earlier years.

Commonwealth General Government Budget and Net Debt Data

	Receipts		Payments		Cash surplus		Net debt	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1975-76	18,316	23.1	19,876	25.1	-1,560	-2.0	-341	-0.4
1976-77	21,418	23.5	22,657	24.8	-1,239	-1.4	898	1.0
1977-78	23,491	23.6	25,489	25.6	-1,998	-2.0	2896	2.9
1978-79	25,666	22.7	27,753	24.6	-2,087	-1.8	4983	4.4
1979-80	29,780	23.2	31,041	24.2	-1,261	-1.0	6244	4.9
1980-81	35,148	24.1	35,260	24.2	-112	-0.1	6356	4.4
1981-82	40,831	24.5	40,394	24.2	437	0.3	5919	3.5
1982-83	44,675	24.9	47,907	26.7	-3,232	-1.8	9151	5.1
1983-84	49,102	24.2	55,966	27.6	-6,864	-3.4	16015	7.9
1984-85	57,758	25.7	63,639	28.3	-5,881	-2.6	21896	9.7
1985-86	64,845	26.2	69,838	28.2	-4,993	-2.0	26889	10.8
1986-87	73,145	26.9	75,392	27.7	-2,247	-0.8	29136	10.7
1987-88	81,217	26.2	79,440	25.6	1,777	0.6	27359	8.8
1988-89	88,369	25.1	82,202	23.4	6,167	1.8	21982	6.3
1989-90	95,517	24.8	88,882	23.1	6,635	1.7	16121	4.2
1990-91	97,705	24.6	97,333	24.5	372	0.1	16936	4.3
1991-92	92,966	22.9	104,551	25.7	-11,585	-2.9	31132	7.7
1992-93	94,448	22.2	111,484	26.2	-17,036	-4.0	55218	13.0
1993-94	100,142	22.4	117,252	26.3	-17,110	-3.8	70223	15.7
1994-95	109,720	23.3	122,901	26.1	-13,181	-2.8	83492	17.7
1995-96	121,105	24.1	131,182	26.1	-10,077	-2.0	95831	19.1
1996-97	129,845	24.5	135,126	25.5	-5,281	-1.0	96281	18.2
1997-98	135,779	24.2	134,608	24.0	1,171	0.2	82935	14.8
1998-99	146,521	24.8	142,331	24.1	4,190	0.7	70402	11.9
1999-2000	165,828	26.4	153,157	24.3	12,671	2.0	53106	8.4
2000-01	160,847	23.9	155,221	23.1	5,625	0.8	39258	5.8
2001-02(e)	163,996	23.1	165,188	23.3	-1,193	-0.2	38845	5.5
2002-03(e)	172,310	23.0	170,216	22.7	2,094	0.3	34474	4.6
2003-04(p)	181,188	22.8	177,523	22.3	3,665	0.5	18964	2.4
2004-05(p)	190,761	22.6	186,121	22.1	4,641	0.6	1759	0.2
2005-06(p)	200,449	22.4	193,317	21.6	7,132	0.8	-18857	-2.1

(e) estimates (p) projection