

OVERVIEW

Since the 2010-11 Budget, uncertainty around the global economic recovery has increased. Despite this increased uncertainty and renewed volatility in global financial markets the outlook for the domestic economy remains positive. Responsible economic and fiscal management during the global financial crisis means Australia is in a strong position to withstand any intensification in global stresses.

Australia's economy continues to be stronger and the unemployment rate lower than in most other advanced economies, and Australia's fiscal position remains strong. While the global recovery is uneven, Australia will continue to benefit from its location in the world's fastest growing economic region.

The global economy is recovering, with strong growth in Asia but weak and uneven prospects in advanced economies, although the outlook is increasingly clouded by substantial downside risks. Continuing concerns over sovereign debt sustainability and banking sector weakness in the EU periphery are likely to be an ongoing source of volatility in financial markets.

Other global risks have also emerged including uncertainty over US growth prospects, the challenge in China of managing inflationary pressures and the difficulty in managing fiscal consolidation across the advanced economies in an environment where global growth is still fragile.

Despite these uncertainties, the outlook for the domestic economy remains positive. There are early signs that economic activity will gather momentum over 2010-11 and 2011-12 – driven by a substantial boost in the terms of trade and expected strong investment, largely associated with the mining boom.

The robust economy, strong fiscal position, solid banking system, impressive resource endowments and close trade ties with Asia means that Australia is well placed to ride out increased global uncertainties. The Australian economy is forecast to grow by 3 per cent in 2010-11 and 3¾ per cent in 2011-12, and the unemployment rate – which is already lower than in any of the major advanced economies – is expected to fall further to 4¾ per cent in 2011-12.

Table 1: Major economic parameters^(a)

	Estimate(b)	Forecasts		Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14
Real GDP	2 1/4	3	3 3/4	3	3
Employment	2 3/4	2 1/4	2	1 1/2	1 1/2
Unemployment rate	5 1/4	5	4 3/4	5	5
CPI	3 1/4	2 3/4	2 3/4	2 1/2	2 1/2
Nominal GDP	3 1/4	9 1/4	5 1/4	5 1/4	5 1/4

(a) Real and nominal GDP are year average growth. Employment and CPI are through-the-year growth to the June quarter. The unemployment rate is the rate in the June quarter.

(b) Employment growth and the unemployment rate are ABS outcomes.

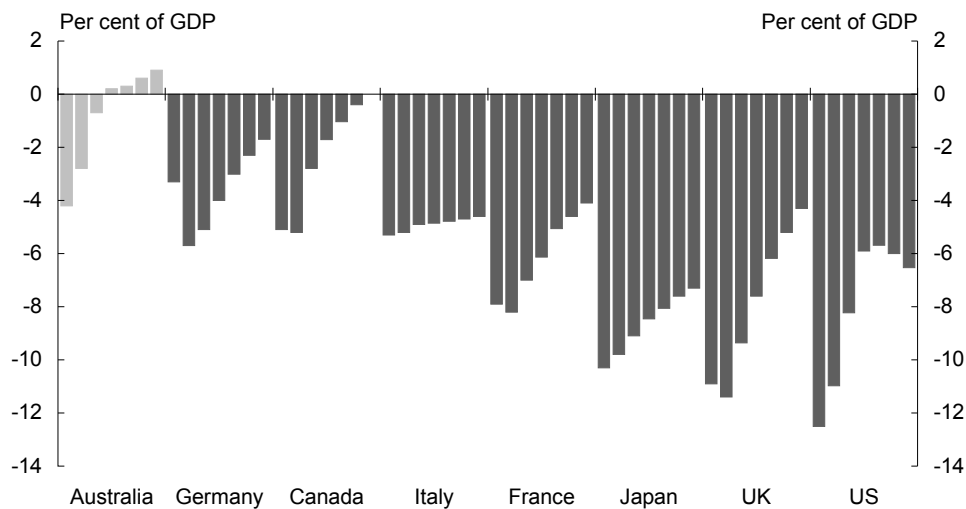
Source: ABS cat. nos. 5206.0, 6202.0 and 6345.0, Treasury.

Economic Statement

The emerging risks — particularly the sovereign debt issues in Europe — highlight the importance of sound and sustainable public finances, as stressed in the recent G20 Toronto Summit Declaration. In that regard, Australia is particularly well placed, with one of the strongest budget positions in the developed world.

The Budget is projected to return to a surplus in 2012-13. This means Australia will return to surplus ahead of any of the major advanced economies whose collective deficit is forecast to be 6.0 per cent of GDP in 2012 (Chart 1). Australian Government net debt is expected to peak at 6.0 per cent of GDP in 2011-12 — less than a tenth of the average of the major advanced economies.

Chart 1: Budget balances of Australia and the G7, 2009-2015



Australian data are for the Australian Government general government sector underlying cash balance and refer to financial years beginning 2009-10. Data for all other economies are total Government net lending and refer to calendar years. The Australian result for 2009-10 is an indicative estimate pending the preparation of audit cleared financial statements for government agencies. Final data for 2009-10 will be published in the 2009-10 Final Budget Outcome.

Source: IMF World Economic Outlook April 2010, IMF Fiscal Monitor May 2010 and Treasury.

The table below provides a summary of the key budget aggregates.

Table 2: Summary of budget aggregates

	Estimates		Projections	
	2010-11	2011-12	2012-13	2013-14
Underlying cash balance (\$b)(a)	-40.4	-10.0	3.1	4.8
Per cent of GDP	-2.8	-0.7	0.2	0.3
Fiscal balance (\$b)	-39.0	-8.4	4.7	6.3
Per cent of GDP	-2.7	-0.6	0.3	0.4

(a) Excludes expected Future Fund earnings.

Australia's strong fiscal position has been achieved by continuing to deliver on the Government's deficit exit strategy: keeping real payments growth below 2 per cent a year; maintaining tax as a share of GDP, on average, below the 2007-08 level; and allowing higher tax receipts to flow through to the budget bottom line.

The strength of the economy and soundness of our fiscal outlook has Australia in a strong position to take advantage of the resurgent growth in Asia and meet future challenges.