



BUDGET
OVERVIEW

CONTENTS

Budget at a glance	3	Energy reform for the future	20
Resilience in uncertain times	4	Reforming international taxation	21
Sound economic policy	5	Revenue and spending: major categories	22
Reducing personal income tax	6	States benefit from GST	23
Keeping net debt low	8	Heightened risks, subdued global growth	24
Funding Australia's spending priorities	9	Economic growth amid global weakness	25
Strong defence	10	Business investment to remain solid	26
Enhancing Australian security	11	Strong employment growth	27
Our universities – backing Australia's future	12	Reform's rewards and future challenges	28
Investing in education	13	Improving incomes, innovation and fairness	29
Sustaining first rate health services	14	Appendix A Commonwealth budget aggregates	30
Promoting participation to address disadvantage	16	Appendix B Spending initiatives in the 2003-04 Budget	31
Better results for Indigenous Australians	17	Appendix C Detailed economic forecasts for 2003-04	32
Developing industry and innovation	18	Appendix D Historical budget and net debt data	33
Support for rural and regional Australia	19		

BUDGET AGGREGATES

	Actual	Estimates		Projections		
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Underlying cash balance (\$b)	-1.0	3.9	2.2	1.3	1.2	4.7
Per cent of GDP	-0.1	0.5	0.3	0.2	0.1	0.5
Fiscal balance (\$b)	-3.8	1.5	0.7	-1.1	0.3	2.8
Per cent of GDP	-0.5	0.2	0.1	-0.1	0.0	0.3

MAJOR ECONOMIC PARAMETERS

	Forecasts		Projections		
	2002-03	2003-04	2004-05	2005-06	2006-07
Real GDP	3	3 1/4	3 1/2	3 1/2	3 1/2
Employment	2 1/2	1 3/4	1 1/2	1 1/2	1 1/2
Wages	3 1/4	4	3 3/4	3 3/4	3 3/4
CPI	3 1/4	2 3/4	2 1/2	2 1/2	2 1/2

Budget at a glance

This Budget continues the Government's very strong economic management and this provides the flexibility to deliver responsible reductions in personal income tax and increase spending on a number of key priorities. The Australian economy remains resilient despite difficult international circumstances.

Reducing personal income tax

On 1 July 2000, the largest tax cuts ever were delivered as part of tax reform.

From 1 July 2003, Australian taxpayers will share in further personal income tax cuts worth \$10.7 billion over four years.

The reduction in income tax means that taxpayers will keep a higher proportion of their earnings.

This provides improved incentives to pursue work, advancement and higher skills.

Strong defence

Increased spending on defence (including Australia's contribution to disarming Iraq) of \$2.1 billion over five years from 2002-03.

Enhancing Australian security

An additional \$411 million over five years from 2002-03 (building on last year's measures) to upgrade Australia's existing domestic security arrangements.

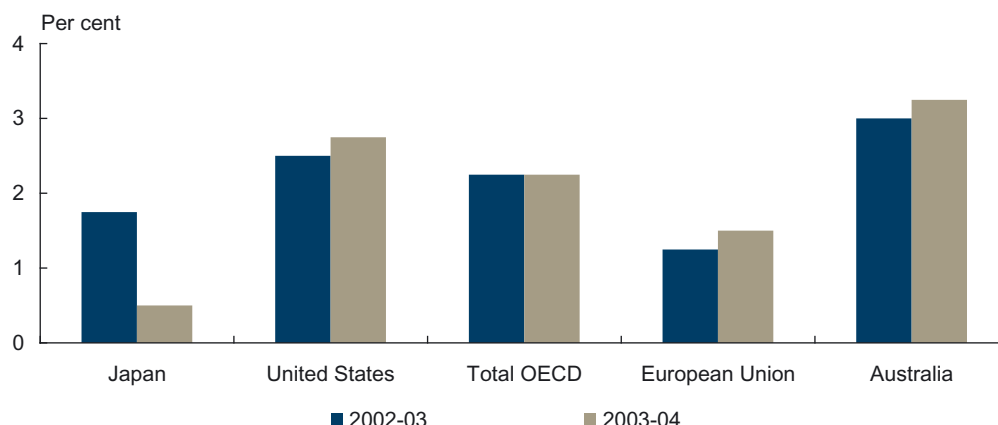
Investing in education

\$1.5 billion over four years from 2003-04 growing to an extra \$870 million each year to enhance our higher education system.

Health

\$917 million over five years from 2002-03 for the *A Fairer Medicare* package.

\$42 billion over five years from 2003-04 for public hospitals under the new Australian Health Care Agreements.



Australia's growth prospects remain sound despite global weakness

Resilience in uncertain times

Adverse economic and financial developments in the world's largest economies continue to constrain world growth. The Australian economy remains resilient, growing faster than most other developed economies.

Economic performance

Over the past couple of years, global economic conditions have weakened and international uncertainty has increased. Recent events, including the war in Iraq and the SARS outbreak, have added pressure to an already weak and fragile global economy.

In a very difficult international environment, the Australian economy has shown remarkable resilience. Our economy has continued to grow solidly, outperforming most other developed economies. Investment has surged, employment has grown strongly and inflation has remained moderate. The OECD describes Australia as one of its best performers.

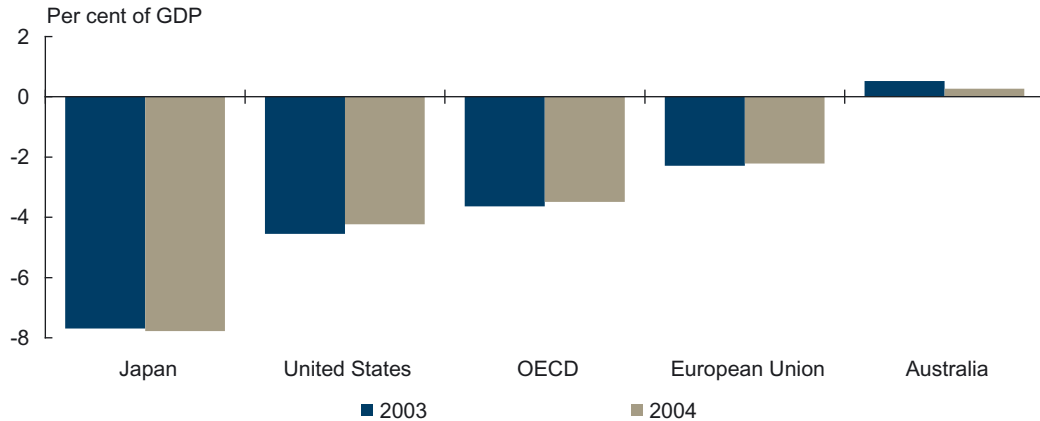
Even more remarkable is that this growth has occurred while Australia has battled the most extensive drought in Australian meteorological records.

Looking forward, prospects for the Australian economy remain sound, although global weakness continues to cloud the near-term outlook.

Economic growth is forecast to be 3¼ per cent in 2003-04. The unemployment rate is expected to remain steady and inflation is expected to be within the target band.

Despite the positive outlook for the Australian economy we should not be complacent. Substantial downside risks surround the international outlook and, if international conditions deteriorate, the Australian economy will be affected.

But, with strong fundamentals and supportive policy settings, the Australian economy and Government are well-placed to face, and respond to, future challenges.



Against the tide — Australia expects cash surpluses

Sound economic policy

Governments and economies need to have the flexibility to respond to unforeseen difficulties. Through good management and forward planning, this Government has been able to ensure that Australia is well placed to deal with these uncertain times while delivering tax cuts and spending on high priorities.

Strong economic management

This Budget delivers the Government's sixth surplus. An underlying cash surplus of \$2.2 billion is expected in 2003-04 with surpluses in the three following years.

The Government's fiscal position continues to be guided by its strategy of achieving budget balance, on average, over the economic cycle. This strategy aims to maximise sustainable economic growth and, ultimately, the living standards of all Australians.

The fiscal strategy is complemented by a sound monetary policy framework. Together they provide the conditions for economic growth with low inflation and low interest rates.

In the words of the OECD, Australia now has an economy that is 'notably resilient to shocks, both internal and external' and the 'effects of previous reforms will continue to help the economy to combat shocks in the immediate future'.

Australia continues to do better on its budget performance than most developed countries. OECD projections show most OECD countries are expected to record budget deficits in 2003 and 2004. The average budget deficit for the OECD as a whole is expected to be 3½ per cent of GDP.

Far-reaching reforms, including tax reform, have made the Australian economy more competitive and resilient and provided budgetary flexibility.

On 1 July 2000, this government introduced the largest tax cuts ever. This Budget provides further relief for Australian taxpayers. From 1 July 2003, Australian taxpayers will share in personal income tax cuts worth \$10.7 billion over the next four years.

PERSONAL INCOME TAX THRESHOLDS

Current tax thresholds	New tax thresholds from 1 July 2003	Tax rate
Income Range (\$)	Income Range (\$)	(%)
0 – 6,000	0 – 6,000	0
6,001 – 20,000	6,001 – 21,600	17
20,001 – 50,000	21,601 – 52,000	30
50,001 – 60,000	52,001 – 62,500	42
60,001 +	62,501 +	47

Tax thresholds will rise so Australian taxpayers will take home a higher proportion of their earnings.

Reducing personal income tax

Australian taxpayers will share in personal income tax cuts worth \$10.7 billion over the next four years.

Further tax relief for Australian taxpayers

On 1 July 2000, this Government introduced the largest personal tax cuts ever in Australia's history. This Budget includes another round of tax cuts for personal income taxpayers.

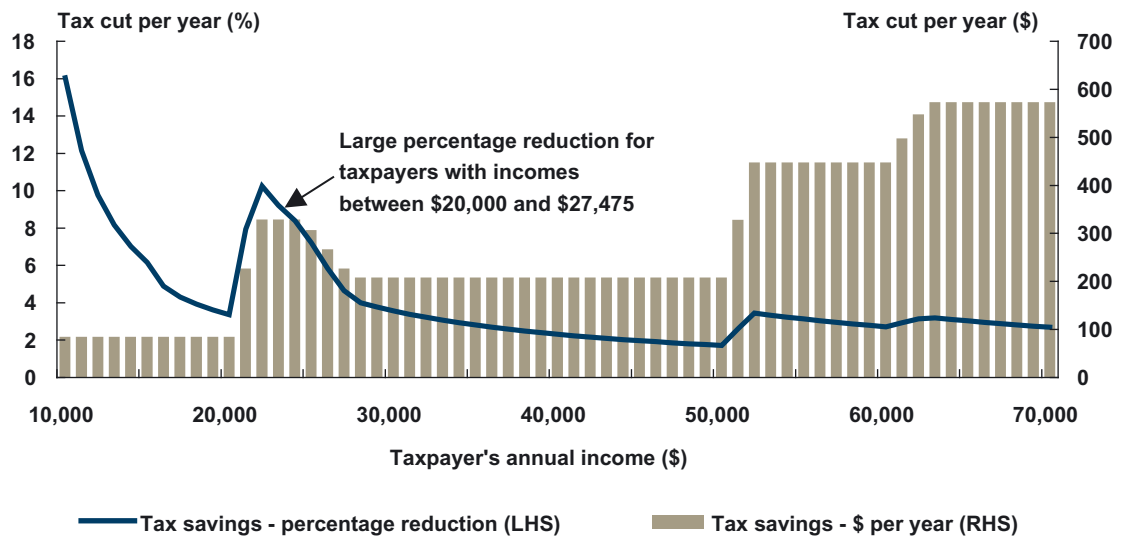
From 1 July 2003, there will be increases in personal income tax thresholds and additional assistance for low income earners through a more generous low income tax offset.

These changes mean that Australian taxpayers can keep a higher proportion of the earnings they receive after tax, providing improved incentives to pursue work, advancement and higher skills.

Increased personal income tax thresholds

The new thresholds are shown above. Taxpayers on an income of \$35,000 per year will have a reduction in the tax they pay of \$208 per year as a result of the increase in the thresholds. For those on \$55,000, the reduction in tax paid will be \$448 per year and for those on an income of \$75,000, the reduction in tax paid will be \$573 per year.

The increases in the thresholds will be reflected in the amount of tax that is withheld from taxpayers' income.



Low income earners will benefit from a low income tax offset of \$235 per year, an increase of \$85. Senior Australians will also benefit from an increase in the Medicare levy threshold for senior Australians.

Assisting low income earners

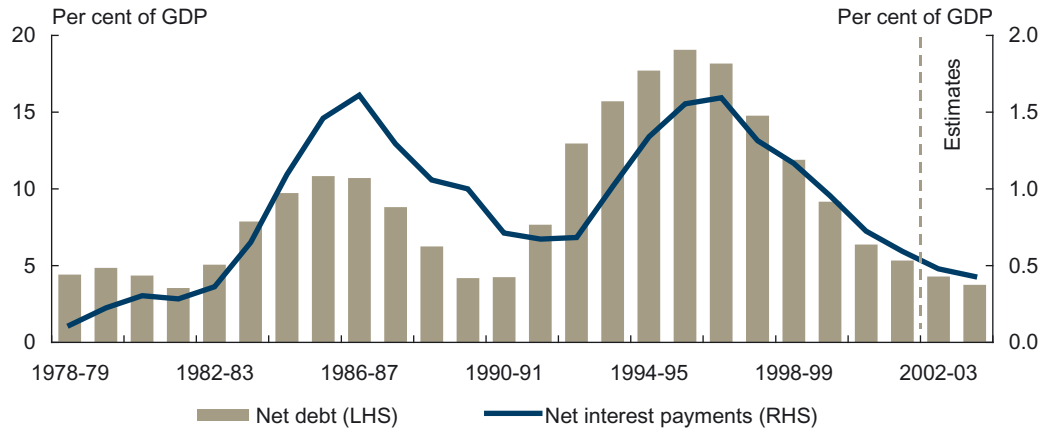
The Government will assist low income earners by increasing the low income tax offset from \$150 to \$235 per year. The effect of this increase is that those eligible for the full low income tax offset will not pay tax until their annual income exceeds \$7,382 per year. At present, they pay tax when their annual income exceeds \$6,882.

In addition, the low income tax offset will not start to phase out until a taxpayer's annual income reaches \$21,600. As a result of the changes to the low income tax offset, the income level up to which the offset can be claimed increases from \$24,450 to \$27,475. These taxpayers will also benefit from the increase in the 30 per cent income tax threshold.

Providing further benefits for senior Australians

The tax cuts also increase the benefits for senior Australians from that announced in the 2001-02 Budget. Senior Australians eligible for the Senior Australians Tax Offset will pay no tax on annual incomes up to \$20,500 for singles compared with \$20,000 currently and up to \$33,612 for couples compared with \$32,612 currently.

The Medicare levy threshold for senior Australians will be increased to ensure that senior Australians do not pay the Medicare levy until they begin to incur an income tax liability.



Sound fiscal management brings down debt and interest payments

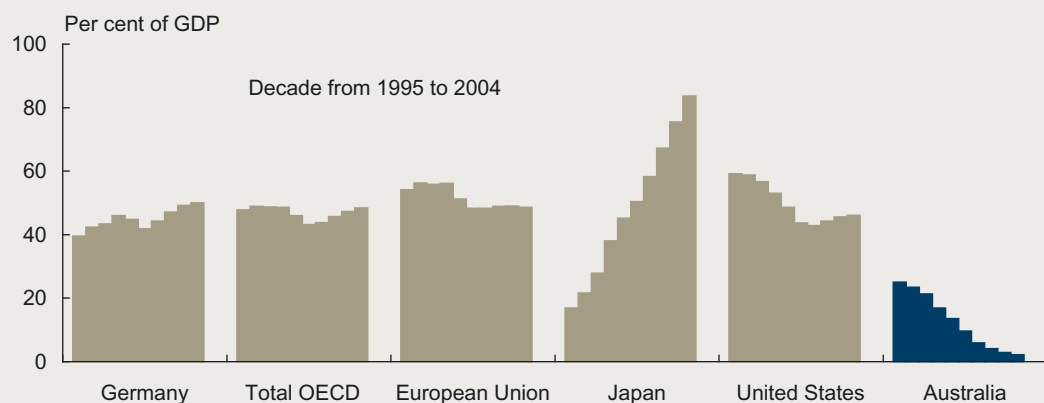
Keeping net debt low

Since 1996 the Government has been reducing general government net debt which had run up to \$96 billion under Labor. In dollar terms the Government, since coming to office, will have reduced net debt by \$63 billion in 2002-03.

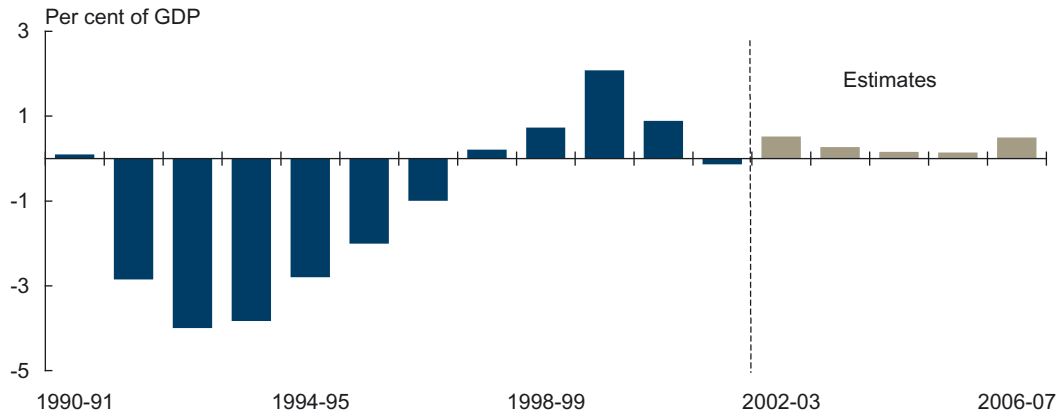
The Government has reduced net debt to \$32 billion and is committed to maintaining low levels of net debt.

Australia's level of net debt compares favourably with other industrialised countries and our net debt to GDP ratio is amongst the lowest in the OECD.

Lower net debt contributes to lower interest rates, thereby generating more favourable investment conditions which help to create jobs.



Australia's general government net debt amongst the lowest in the developed world



Budget surpluses, while delivering personal income tax cuts and funding key priorities

Funding Australia's spending priorities

The Government's record of strong fiscal management means that, even in these times of significant global uncertainty, we have the capacity to address key spending priorities.

Preparing for the future

In this Budget the Government expects to deliver its sixth surplus in 2003-04 while meeting the key challenges facing our nation. This Budget continues the Government's record of responsible fiscal management while delivering personal income tax cuts and spending on priority areas for Australia's future.

Specifically, the Government is committing an additional \$2.1 billion in this Budget to enhance the Australian Defence Force's capacity to defend Australia's interests at home and abroad. This is on top of the significant funding increases agreed since the Government came to office.

Another \$411 million is being provided to improve our ability to identify and respond to security threats to our nation.

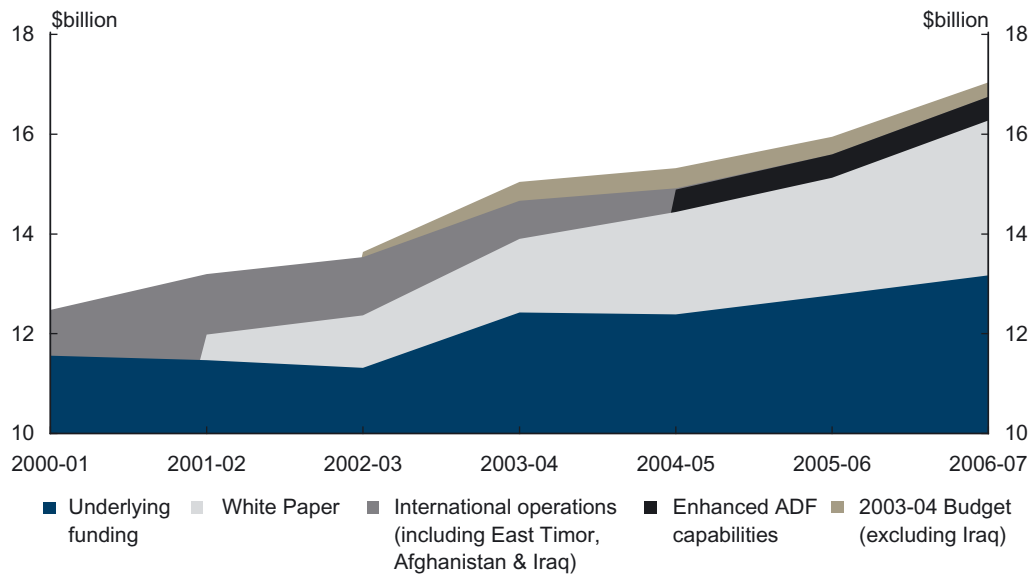
This Budget also includes measures to promote the accessibility and affordability of Australia's education and health systems.

This Budget funds further reforms to provide a better quality of, and greater access to, higher education. These reforms, costing \$1.5 billion over four years, will help to make our people and our nation more productive.

To ensure the effectiveness of the health system, funding of \$917 million over five years will be provided for the A Fairer Medicare package and \$42 billion over five years for public hospitals under the Australian Health Care Agreements.

These initiatives are helping to build our future, while maintaining sound budget outcomes.

Australia would be better prepared to meet future challenges if the Senate passed a number of initiatives announced in last year's Budget. When implemented, these initiatives will help ensure that future governments can afford our welfare and health systems.



Strong defence

The Government has provided additional funds to further improve the Australian Defence Force’s capacity to protect Australia and its national interests. Funding has been committed to maintain critical defence equipment, support Australia’s objectives in the War Against Terrorism, enhance our domestic security capability and boost personnel numbers.

Protecting Australian interests

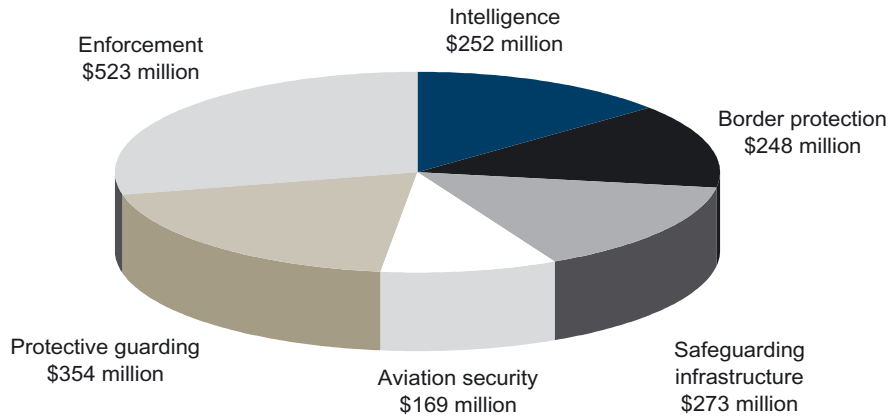
Our nation’s security is a key priority of the Government. In the 2003-04 Budget the Government announces an increase in spending on defence of \$2.1 billion over the five years from 2002-03 to enhance the protection afforded Australia and its interests at home and abroad. The Government has now committed over \$38 billion in new funding to defence since coming to office in 1996.

This Budget provides \$1.1 billion over the five years from 2002-03 to augment logistics and support funding for a range of ships, aircraft and land-based specialist military equipment, as well as the purchase of ordnance. This funding is required in light of the higher operational tempo of the Australian Defence Force in the new strategic environment.

The Government has committed \$645 million over the three years from 2002-03 to fund Australia’s contribution to the international coalition to disarm Iraq, as well as contributions to post-conflict rehabilitation and reconstruction activities.

Funding of \$157 million over the next four years will be provided to establish a Special Operations Command to enhance Australia’s capacity to respond to threats to our national security. The Command will deliver an additional 334 combat and associated support personnel to coordinate the activities of Australia’s Special Forces.

Recognising that the Australian Defence Force’s strength is the quality of its people, the Government has also committed \$103 million over the next three years to boost Defence Force personnel numbers.



An additional \$1.8 billion over six years from 2001-02 to safeguard our communities

Enhancing Australian security

Safeguarding our communities from terrorist threats is a top priority. That is why the Government is allocating significant new funding to domestic security initiatives to protect critical infrastructure and enhance our intelligence and protective security services.

Safeguarding our community

Following the terrorist attacks of September 11 and the Bali bombings, the Government provided additional funding of \$1.4 billion over the five years from 2001-02 to upgrade security within Australia.

This included enhancements to Australia's aviation security arrangements, as well as additional funding for our defence, intelligence and law enforcement agencies to ensure they are well placed to respond to threats to our security.

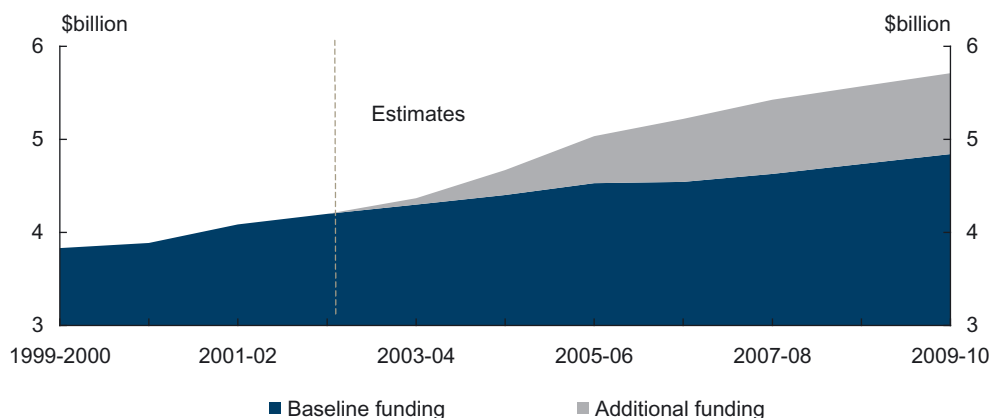
This Budget builds on these strong foundations by implementing the A Safer Australia package, which provides \$411 million over the five years from 2002-03 to further enhance Australia's existing domestic security arrangements.

Critical security infrastructure at our ports, airports and nuclear research facilities will be upgraded at

a cost of \$148 million. Shipping containers will be examined using state-of-the-art x-ray technology, and their movements monitored to allow suspect containers to be easily located.

The Government has committed \$152 million to enhance the capacity of Australia's intelligence agencies to respond to security threats. A National Security Hotline has been established to allow citizens to report suspicious activity and our border processing systems will be enhanced to better identify persons of concern, thereby reducing the risk of their unlawful entry to Australia.

A further \$111 million will upgrade our protective security services. Guarding arrangements for VIPs and embassies will be enhanced and funding will be provided for enhanced security for defence personnel and facilities.



The Government's investment in higher education

Our universities – backing Australia's future

Education creates opportunities for all Australians to improve their standard of living. The Government will introduce wide-ranging reforms to ensure the higher education system provides greater access to a high quality of education for all Australians. The Government will invest an additional \$1.5 billion in the system over the next four years to make this vision a reality.

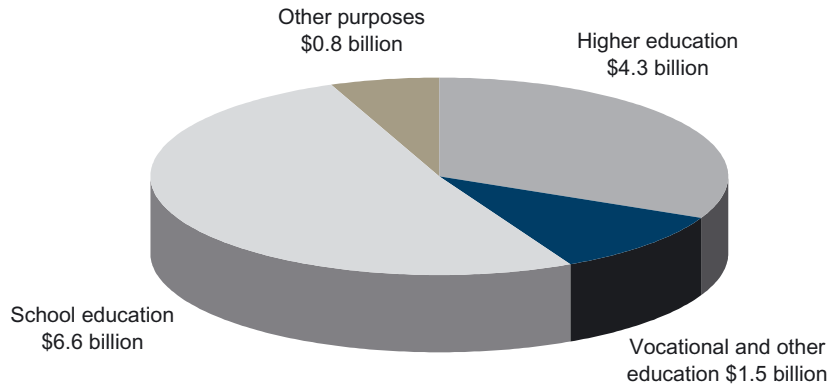
Strengthening Australia's higher education system

The Government is acting to strengthen the higher education system's role in the community. Australia needs a diverse range of higher education institutions serving a wide range of needs. Australians need the opportunity to access high quality education, and institutions need the flexibility to meet those demands.

The Government is making a substantial commitment to secure this vision, involving more than \$1.5 billion over the next four years, growing to an extra \$870 million each year once fully implemented.

The major reforms include

- a \$775 million increase, over the three years from 2005, in base funding for universities, directly benefiting around 400,000 students
- more flexibility for universities in setting course fees
- \$123 million over the next four years for regional campuses
- an extended Higher Education Loans Programme (HELP) to improve access and choice in education, assisting over 40,000 existing and new full fee-paying students, with students helped to invest an extra \$800 million in their education over the next four years
- \$161 million over four years to provide higher funding for national education priorities, focused on teaching and nursing and 1300 extra Commonwealth-supported places in these fields
- a \$184 million package of scholarships and equity initiatives over the next four years
- \$211 million from 2006 over the forward estimates period in further incentives to strengthen the quality of teaching and encourage diversity in the education system
- more effective governance and workplace relations to deliver better value for money.



The Government's \$13 billion investment in education in 2003-04

Investing in education

People's education sets the foundation for their participation in the community and assists them in reaching their potential. The Government will embark on a range of initiatives to grow the Australian international education industry further. The Government is also strengthening its commitment to raising standards in school education and training.

Growing Australia's international education industry

The value of an education gained with Australian institutions is recognised by over 200,000 international students a year, earning Australia over \$5 billion in exports. The Government recognises education and training can further develop as a leading export industry.

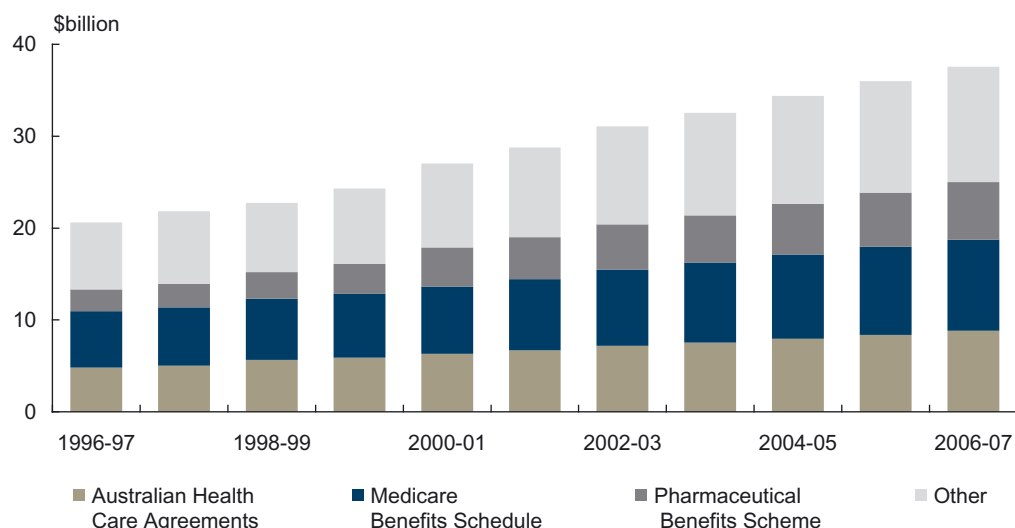
To this end, the Government will invest an additional \$113 million over four years to ensure the quality, diversity and sustainability of Australia's international education industry and its value to overseas students. This includes \$42 million to promote education and training in the international market and \$36 million to establish international centres of excellence. The Government will help fund these initiatives by restructuring the Education Services for Overseas Student Fee, and increasing the International Education Contribution within the Student Visa Application Charge.

Raising standards in vocational training and schools

Australians need up-to-date vocational skills to drive improvements in living standards. And people's literacy and numeracy skills set the foundation for their participation in society and the workforce. Ensuring that all Australians have these skills is a continuing priority for the Government.

The Government will provide \$3.6 billion over the next three years to build on its achievements in developing a responsive, flexible and high quality training system with State and Territory governments. This will benefit around 1.7 million students each year.

The Government will strengthen its commitment to raising literacy and numeracy standards by providing more than \$210 million over four years for projects that deliver better learning outcomes for educationally disadvantaged students. This will supplement the over \$6 billion in base funding contributed by the Commonwealth each year for school education.



Sustaining first rate health services

This year the Government plans to spend more than \$30 billion on health care. This represents around one-fifth of total Government spending. A *Fairer Medicare* package and funding for new Australian Health Care Agreements reaffirm the Government's commitment to universal Medicare, where all Australians can access Medicare rebates, free treatment in public hospitals and subsidies for prescription medicines.

In 2003-04, this Government will have increased health spending by around 65 per cent since coming to office. The Government is committed to an affordable range of medical services and better access to medical services wherever you live.

The Government remains committed to ensuring Australians have choice in their health care. This involves operating a viable private health industry alongside the high quality public system.

Private health insurance coverage has jumped from 30 per cent in January 1999 to 44 per cent in December 2002. This is largely due to the Government's 30 per cent Private Health Insurance (PHI) Rebate introduced in January 1999 and Lifetime Health Cover introduced in July 2000.

Now more than 8.7 million people have private health insurance. This takes significant pressure off the public hospital system.

In this Budget the Government is announcing renewed funding for 20 Commonwealth programmes

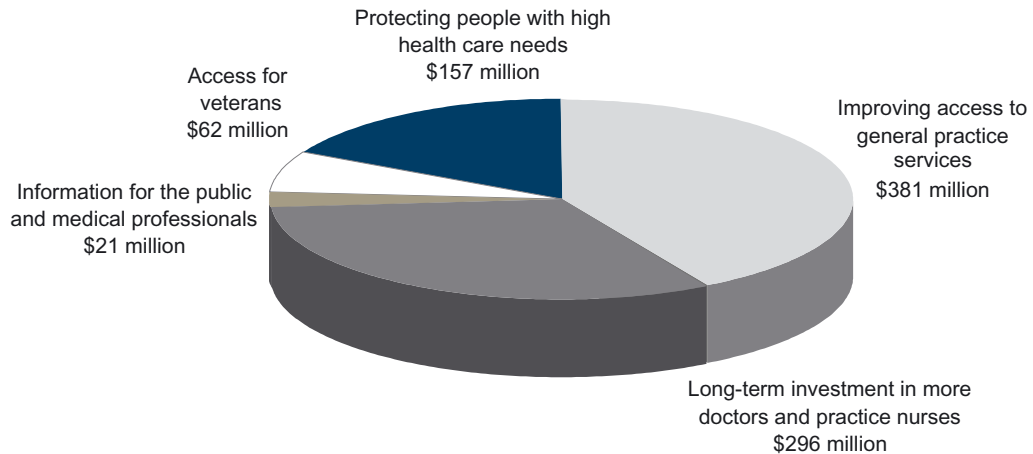
costing around \$561 million over the next four years. These programmes include

- retention payments to GPs to practise in rural and remote areas
- health care centres in small rural and remote communities
- the Enhanced Primary Care Package announced in the 1999-2000 Budget which helps older Australians and those with chronic conditions.

Australian Health Care Agreements

The Government will provide \$42 billion over five years to State and Territory governments for public hospitals under the new Australian Health Care Agreements. This \$10.2 billion of additional funding represents 17 per cent real growth over five years.

This includes funding for the Pathways Home initiative to improve services for people returning home from hospital, especially the elderly.



A Fairer Medicare — better access, more affordable

The Government has allocated \$917 million over five years to its *A Fairer Medicare* package to make Medicare more accessible and affordable, particularly for those who are concession cardholders, veterans or who require a high number of medical services. And the Government is continuing the fight against illicit drugs.

A Fairer Medicare

General Practitioners (GPs) who participate in the new GP Access Scheme will receive incentives to bulk bill concession cardholders. In areas with too few GPs, especially rural and regional Australia, GPs will receive higher incentives for their higher patient loads. To improve access for veterans, the Government will also make higher payments to Local Medical Officers in recognition of the complex treatments veterans require.

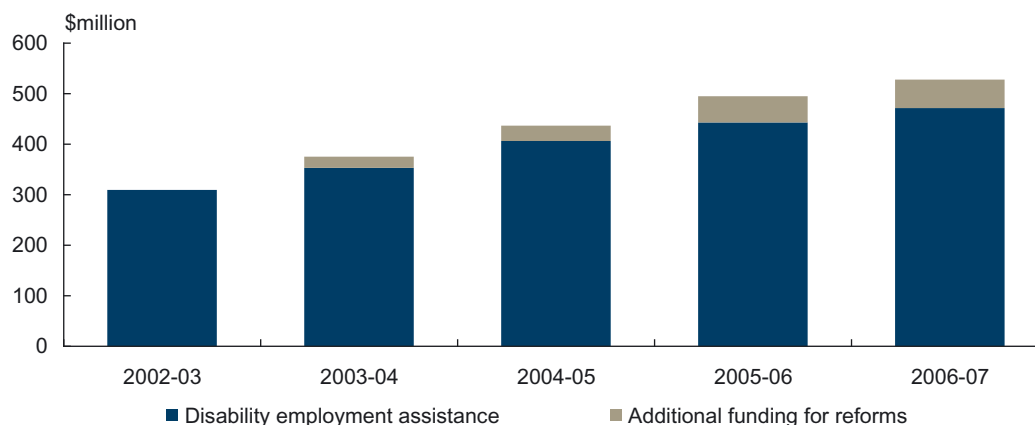
Health care will be made more affordable for people who require numerous Medicare services with

- a new safety net for concession cardholders. This will cover 80 per cent of all costs, above the Medicare rebate for out-of-hospital Medicare services, above a \$500 threshold for a family in a single year
- a new private health insurance product, covered by the 30 per cent PHI Rebate, to cover gap costs for out-of-hospital Medicare services above a threshold of \$1,000 in a single year.

Tough on drugs

The Government will provide funding of \$316 million over four years to reduce the importation, distribution and use of illicit drugs on Australia's streets. The recent apprehension of the freighter MV Pong Su illustrates the success of this strategy. New measures include

- \$4.3 million over four years to stop the importation of materials used for manufacturing illicit drugs
- \$4.3 million over four years to enhance the national drug use monitoring database, an invaluable source of intelligence for police and policy makers on trends in drug use and drug-related crime
- \$3.4 million to improve the analysis of financial information, which can help identify and reduce illicit drug trafficking and related activities.



Latest reforms boost funding for disability employment assistance

Promoting participation to address disadvantage

The Government is providing more opportunities for people facing disadvantage to participate in work and education. Increased funding for disability services will lead to better employment outcomes for people with disabilities, and more assistance for parents of children with special needs.

People with disabilities and their carers face special challenges. Participating in the workforce is particularly challenging. The Government is providing additional funding of \$186 million over four years to assist those with disabilities and their families to participate in the workforce.

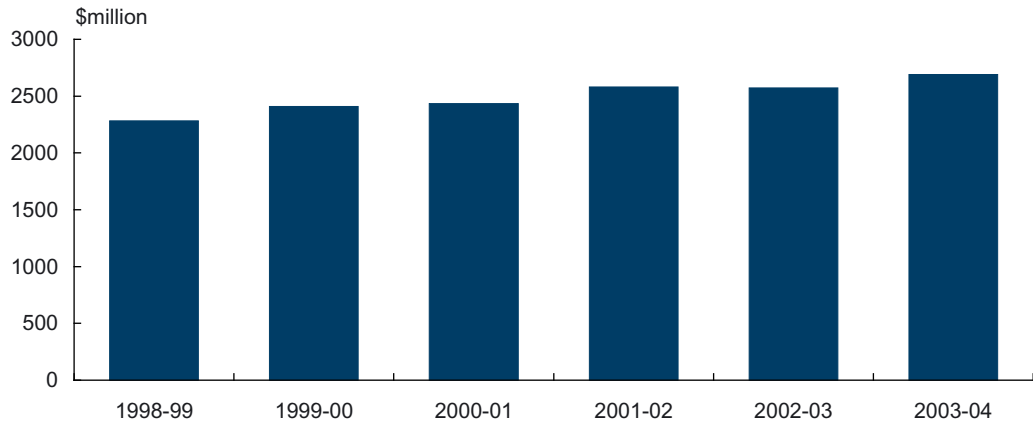
Employment assistance for people with disabilities

This includes \$135 million over four years to improve services to people with disabilities who are seeking work. From 1 July 2004, funding for disability employment service providers will change from block grants to case-based funding, so service providers will be paid according to their clients' needs, the services provided and outcomes achieved. This will result in improved employment outcomes for around 6,000 new job seekers over four years.

An additional \$25 million will be provided to assist business services which provide employment to people with disabilities, to improve business viability while meeting higher standards for employee working conditions and productivity-based wages, as quality assurance legislation will require by December 2004. Currently, these business services provide employment to 17,000 people with moderate to severe disabilities.

Children with special needs

An additional \$26 million over four years will help child care services employ additional carers to support children with special needs, assisting around 1,250 families a year. More parents of young children with special needs, including disabilities, will be assisted so that they can undertake work or study knowing that their children are in a quality child care service.



Rising Indigenous-specific expenditure

Better results for Indigenous Australians

The Government is providing for stronger Indigenous communities. Important measures being implemented in this Budget target Indigenous disadvantage. The Government is also implementing improvements to the Aboriginal and Torres Strait Islander Commission (ATSIC).

Employment assistance for Indigenous Australians

Unemployment, family violence and substance misuse are major problems in many Indigenous communities. ATSIC's largest programme, the Community Development and Employment Projects (CDEP) programme tackles these pressing problems.

Currently, under CDEP, over 35,000 people participate in activities that benefit themselves and their communities.

At a cost of \$62 million over four years, this Budget will expand CDEP by 1,000 places a year. Participants in these new places will undertake duties such as night patrols to assist communities to overcome family violence and substance misuse problems.

Further, Indigenous employment opportunities will be improved by providing interest subsidies and related assistance to help Indigenous people set up small businesses. Indigenous Capital Assistance, will be allocated \$11 million over four years.

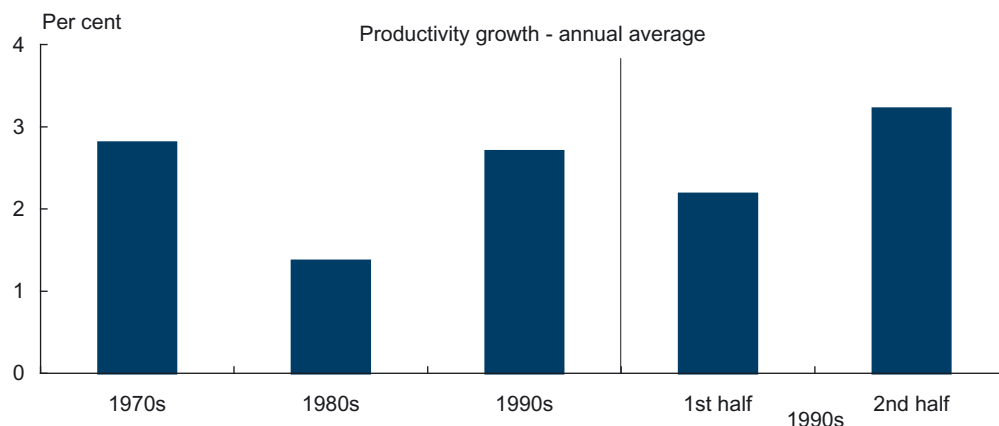
Access and participation in higher education by Indigenous Australians will be enhanced with an additional \$12 million over four years in scholarships and equity support. This comes on top of the \$25 million already provided each year.

ATSIC reform

Organisational changes will separate ATSIC's two roles of providing policy advice and administering major programmes for Indigenous people. These changes aim to deliver better value for money for Indigenous people.

From 1 July 2003, a new agency, *Aboriginal and Torres Strait Islander Services* will administer Indigenous programmes to enhance administration of government expenditure, thereby creating best practice outcomes in employment and housing.

The new arrangements will free ATSIC's elected arm to focus on big picture policy issues and overall funding priorities. Regional councils will be given greater opportunity to be involved more closely in Government consultations.



Productivity improvements driving industry competitiveness

Developing industry and innovation

The Government is developing Australian industry and innovation through initiatives in research and in the oil exploration, pharmaceutical and automotive industries. Strong industries lay the foundation for more job creation and higher living standards for Australians.

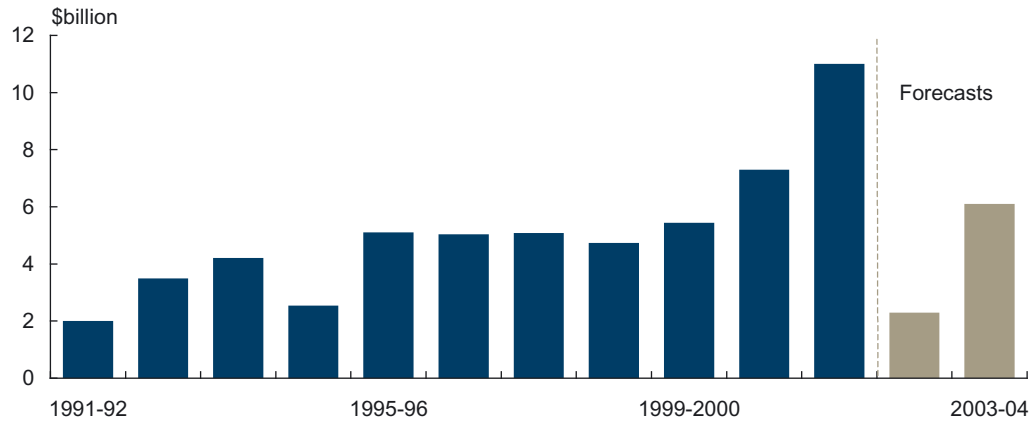
A number of initiatives will develop Australian industry and innovation.

- \$20 million in additional funding in 2003-04 for the Commonwealth Scientific and Industrial Research Organisation (CSIRO). This will help fund research to advance new industries and jobs, healthier and more productive lives for Australians and better use of environmental resources
- \$61 million over four years so Geoscience Australia can provide information on oil exploration opportunities in Australia
- \$150 million over five years from 2004-05 to encourage additional investment in research and development in the pharmaceutical industry

The Government has previously announced funding of \$4.2 billion over ten years after 2005 to promote production, investment, research and development in the Australian automotive industry. Tariffs will fall from 15 to 10 per cent on 1 January 2005 and to 5 per cent on 1 January 2010.

The Government will evaluate the Backing Australia's Ability initiatives in 2003. Backing Australia's Ability is the Government's five year \$3 billion innovation statement, announced in January 2001. The evaluation process will be used to guide the direction of future government investment in Australian science and innovation.

In advance of that evaluation, the Government is providing an additional \$379 million in 2006-07 for the National Competitive Grants Programme, the Cooperative Research Centres Programme and R&D Start.



Farm incomes have been hard hit by the drought (net value of Australian farm production)

Support for rural and regional Australia

Droughts and bushfires have human and financial costs for those directly affected and their communities. With drought widespread and in the aftermath of devastating bushfires, the Government is strengthening its commitment to the growth and prosperity of Australia's regions.

Drought assistance

The Government expects to provide \$750 million over four years from 2002-03 to assist Australians through the most extensive drought in Australian meteorological records. This will help farmers, small business and regional communities with direct financial assistance, personal counselling, employment services, as well as tax relief.

The Government is providing assistance to protect Australia's agricultural and environmental resource base. To achieve this, it encourages farmers and rural communities to adopt self-reliant and sustainable approaches to manage the impact of this and future droughts.

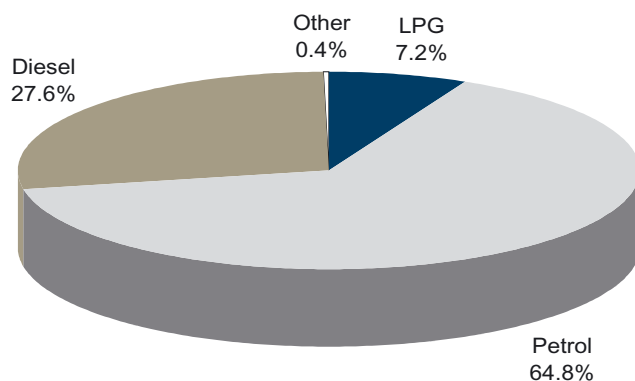
Providing natural disaster relief and mitigation

The Government expects to provide funding of around \$100 million in 2003-04 to help communities recover from natural disasters, including the devastating bushfires.

The Government is also working with State and Territory governments to establish a national approach to natural disaster mitigation to reduce the loss of life and property when natural disasters strike. The Government will provide \$69 million over five years, conditional on matching State and Territory funding and the implementation of more effective land use and building controls.

Regional partnerships

From 1 July 2003, the Government will incorporate a range of regional programmes into a new integrated programme. Regional Partnerships, with additional funding of \$62 million over three years from 2004-05 to 2006-07, will support initiatives in four key areas: strengthening growth and opportunities; improving access to services; supporting planning; and assisting structural adjustment for communities.



Petrol and diesel are the major fuels used in road transport

Energy reform for the future

Improved fuel excise arrangements will be phased in over the next nine years. The new arrangements will promote long-term sustainability and move to a neutral tax treatment for fuels. The Government will impose excise on all fuels used in internal combustion engines starting from 1 July 2008. Additional incentives will encourage further production and use of cleaner fuels.

The current fuel excise arrangements are complex and distortionary. They have led to uncertainty about the long-term excise treatment of some fuels.

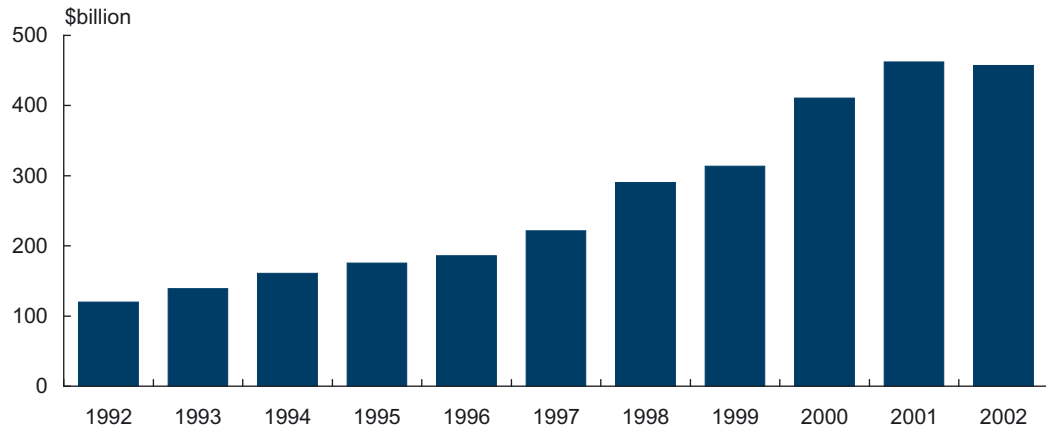
To achieve a more consistent fuel excise regime and a more certain investment climate, effective excise rates for currently untaxed fuels will increase in a series of five, even, annual steps starting on 1 July 2008. The Government will determine final rates later this year. Final excise rates will have regard to the energy content of fuels. Existing subsidy arrangements for ethanol will continue until the new arrangements commence in 2008. Broadly similar treatment will apply to biodiesel from 18 September 2003. That is, excise will apply but this will be fully offset by a subsidy until 1 July 2008.

The Government will encourage early take-up of ultra low sulphur diesel by increasing the excise for regular diesel (compared to ultra low sulphur diesel) by 1 cent per litre on 1 July 2003 and again on 1 January 2004. Agricultural diesel users will not be disadvantaged as off-road grants under the Energy Grants (Credits) Scheme will be increased.

From 2006, additional measures will further encourage the production and use of more environmentally-friendly fuels. These target cleaner petrol and diesel, fuels which hold the biggest market share.

Grants funded by further increases in excise/customs duty will encourage the production and importation of low sulphur diesel and low sulphur premium unleaded petrol.

In addition, the listing of biodiesel and liquefied natural gas (LNG) as alternative fuels in the on-road component of the Energy Grants (Credits) Scheme will make these fuels more attractive.



Overseas investment by Australians has grown over the last decade

Reforming international taxation

Following the Review of Australia's International Taxation Arrangements, the Government is announcing a package of reforms that continues the Government's commitment to improve the international competitiveness of Australian business.

Improving offshore competitiveness

To maintain Australia's status as an attractive place for business and investment, the tax system needs to continually adapt to the increasingly integrated global business environment. With these issues in mind the Government undertook a Review of Australia's International Taxation Arrangements.

After an extensive consultation process conducted by the Board of Taxation, the Government is announcing its response to the review.

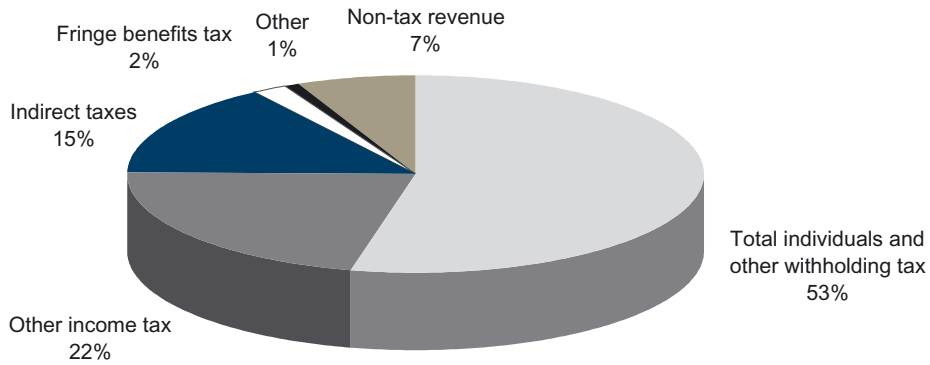
This package of reforms will help Australian business integrate further into the international economy by improving the competitiveness of Australian companies with offshore operations. It will also encourage the establishment in Australia of regional headquarters for foreign groups.

The reforms will

- reduce the compliance costs associated with the controlled foreign company rules
- reduce tax on certain forms of foreign business income and gains
- modernise Australia's tax treaty network
- better target the foreign investment fund rules

To enable adequate public consultation on designing the legislation, most reforms will not commence until 1 July 2004 or later. Priority will be given to achieve early commencement of several key reforms.

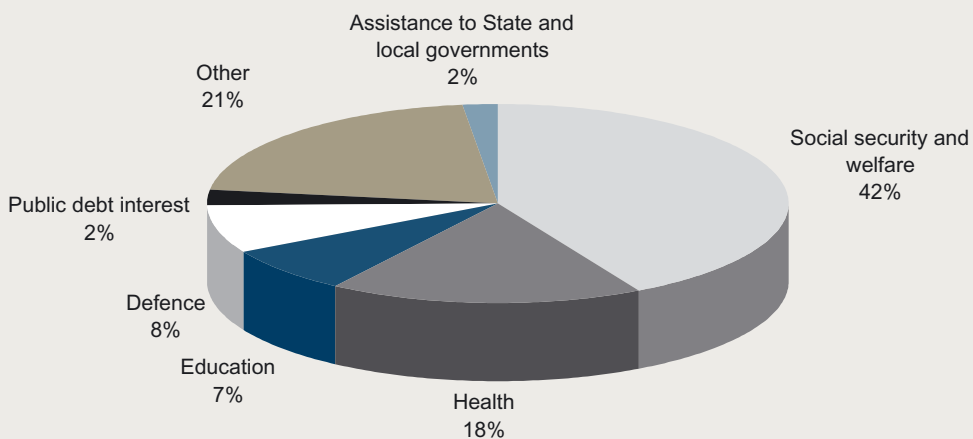
This package of reforms continues the Government's strong record of helping Australian business be internationally competitive.



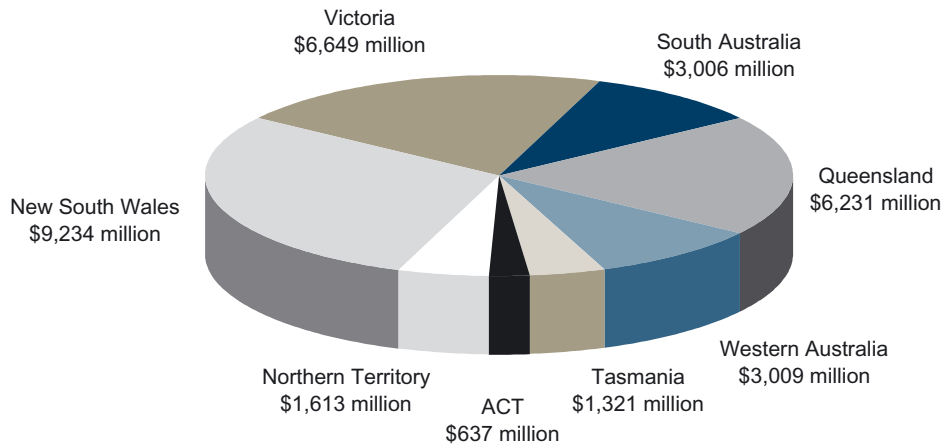
Commonwealth general government revenue by major categories (2003-04)

Revenue and spending: major categories

The Government raises revenue to provide services to all Australians to improve living standards and enhance their security. Of total Government expenditure of \$178 billion, three-quarters is spent on the key areas of welfare, health, education and defence. Revenue is raised from a number of sources. Commonwealth tax receipts have declined, over recent years, to be 20.7 per cent of GDP in 2003-04.



Commonwealth general government spending by function (2003-04)



States will receive GST revenue totalling an estimated \$31.7 billion in 2003-04

States benefit from GST

The reforms to Commonwealth-State financial relations introduced under The New Tax System deliver every dollar of GST to the States, giving them a secure revenue base and allowing them to abolish inefficient State taxes. After just 3 years, most States are better off than they would have been had the Government not implemented tax reform.

States better off

After just three years of *The New Tax System*, most States are expected to receive more revenue than they would have had the Government not implemented tax reform.

In 2002-03

- Queensland will receive \$80 million more
- The Northern Territory will receive \$9 million more

In 2003-04

- Queensland will receive \$197 million more
- Western Australia will receive \$14 million more
- Tasmania will receive \$8 million more
- The Australian Capital Territory will receive \$10 million more

- The Northern Territory will receive \$41 million more.

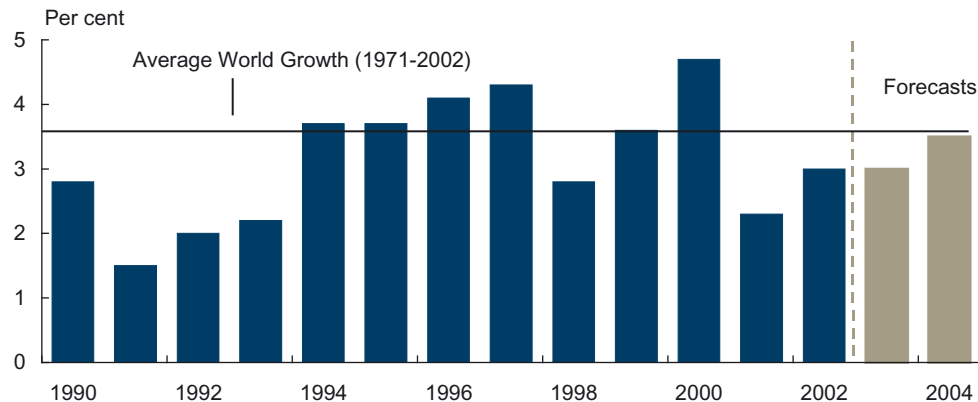
Taxes abolished

The New Tax System has also allowed the abolition of a number of inefficient State taxes

- Accommodation taxes
- Financial Institutions Duty
- Stamp duty on quoted marketable securities

The abolition of these taxes will save taxpayers an estimated \$2.3 billion in 2003-04.

Debits tax is scheduled to be abolished by no later than 1 July 2005.



World annual economic growth

Heightened risks, subdued global growth

The global economic recovery is weak with existing economic problems worsened by recent international tensions, high oil prices and continuing fallout from weak stock markets. As uncertainties abate, the recovery should continue, but more slowly than earlier expected.

Global economic growth slowed in late 2002 as previously identified risks such as international tensions, higher oil prices and continuing weak equity markets materialised.

The global economy continues to face other major ongoing and emerging risks even though uncertainties related to Iraq have eased.

Global economic growth relies excessively on the United States. Japan and the Euro area are hampered by weak financial markets and slow-paced structural reforms, especially in labour and product markets.

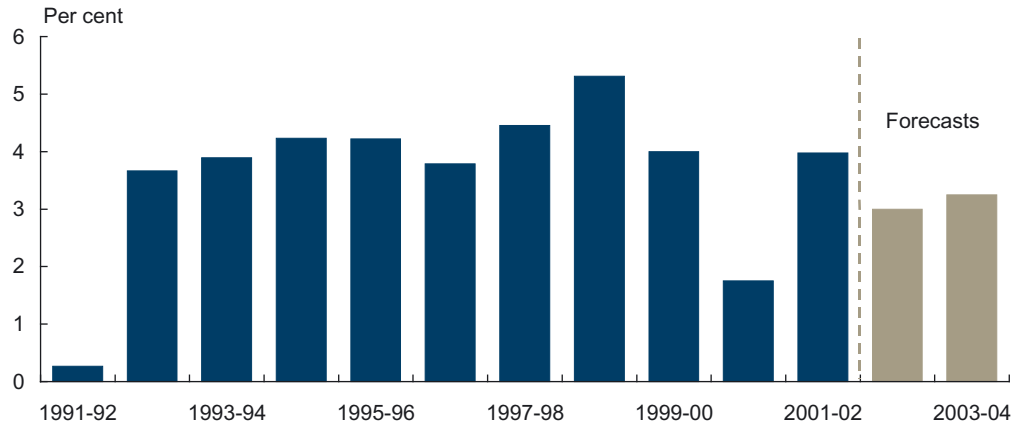
The United States' outlook is clouded by a record high current account deficit despite weak growth. Combined with a high budget deficit, this risks a sudden and disorderly adjustment to exchange rates which could disrupt growth.

New risks to the global economy have also emerged. These include the outbreak of Severe Acute Respiratory Syndrome (SARS) and the escalation of tensions on the Korean Peninsula. Unless SARS is contained rapidly, its full economic impact could be substantial. In Asia, SARS has already disrupted the travel and service sectors.

Governments have acted to support growth in this weak and risky global economic environment by easing monetary and fiscal policies. In the United States, official interest rates are at 40-year lows and the fiscal stimulus is large.

As uncertainties abate, these very supportive macroeconomic policies should see the global economy continue to recover, but more slowly than earlier expected.

The balance of international risks remains predominantly on the downside.



Australian annual economic growth

Economic growth amid global weakness

The Australian economy has remained resilient over the past year despite a weak world economy and the most extensive drought in the Australian meteorological record. While the economy should continue to grow in 2003-04, the pace is likely to be a little below trend.

Australian economy solid, despite global concerns

Australia's economy is set to record its thirteenth year of sustained annual growth in 2003-04 following a solid outcome for 2002-03.

Economic growth this year is expected to be around 3 per cent. This solid outcome looks likely despite global economic weakness and one of the most severe droughts in a century.

Economic growth is forecast to be $3\frac{1}{4}$ per cent in 2003-04. This should be underpinned by solid productivity growth and moderate employment growth. Farm production should make a large contribution to growth if the drought breaks, as expected.

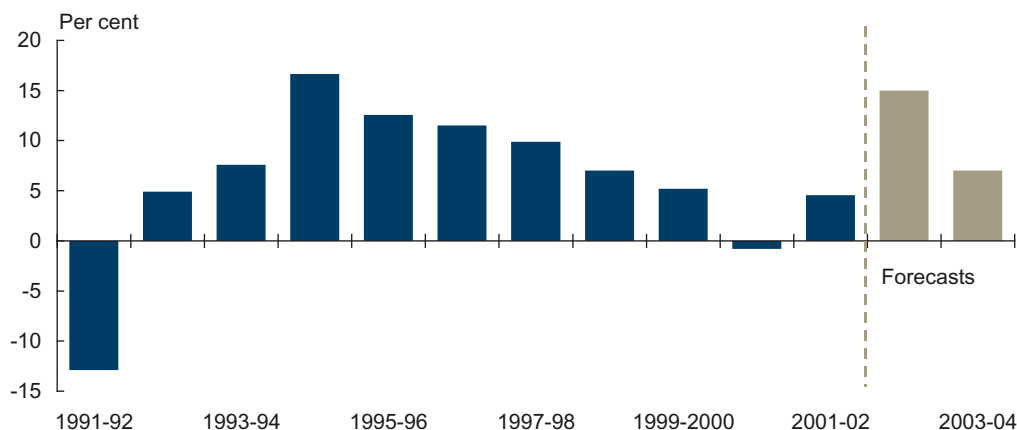
Business investment should also make another solid contribution to economic growth, increasing the economy's capacity to grow in the future.

Solid employment growth and moderate real wage increases should continue to support growth in household income.

The unemployment rate is likely to remain steady, at around 6 per cent.

Inflation should remain moderate, further supporting economic activity. Inflation is forecast to be around $2\frac{1}{4}$ per cent through the year to June 2004.

Despite the positive outlook, the difficult international environment poses significant risks to Australia's growth prospects.



Annual growth in new business investment

Business investment to remain solid

Business investment should grow solidly in 2003-04, after very strong growth in 2002-03. Despite considerable global uncertainty, the fundamental drivers of investment are sound. Profits and cash flows are solid. Many businesses are operating at close to capacity. Interest rates are low and corporate balance sheets are sound.

Fundamentals strong

Business investment is forecast to grow solidly in 2003-04, after very strong growth in 2002-03. It is expected to be one of the key drivers of economic growth.

Global weakness and uncertainty have tempered the near-term outlook. However, the fundamental drivers are supportive of strong growth in business investment once some of the uncertainty clears.

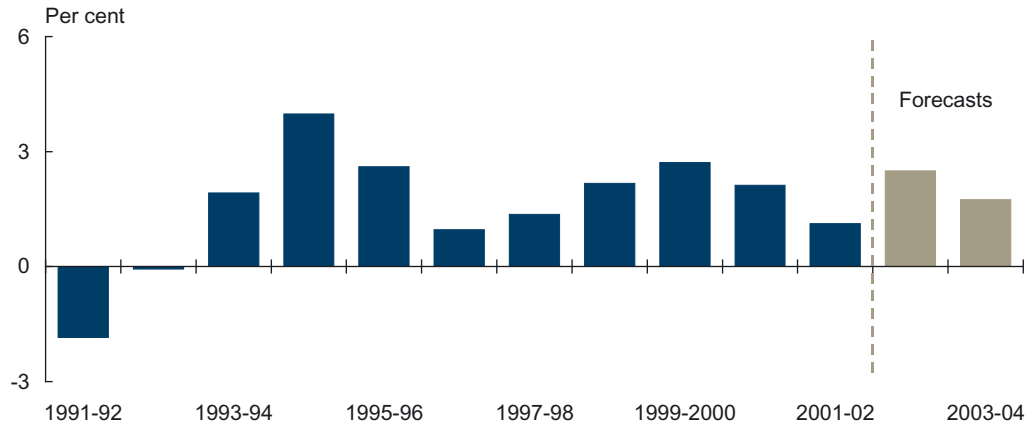
Profits and cash flows are solid; many businesses are operating at close to capacity; interest rates are low; and corporate balance sheets are sound. Business confidence has held up well considering the global backdrop.

Plant and equipment investment is expected to be strongest in the mining, manufacturing and transport

sectors. Buildings and structures investment is expected to be strongest in engineering construction, which includes investment in minerals processing, and transport infrastructure and utilities. Several large projects have commenced or are just about to commence. The value of engineering work yet to be done is the highest on record.

Business investment provides increased capacity to produce goods and services in the future. It often replaces older stock and incorporates newer technologies, helping to increase efficiency and boost productivity. As such, it lays a solid foundation for future economic growth.

The strong growth in investment is a vote of confidence by Australian businesses in our economic future.



Annual growth in employment

Strong employment growth

Employment has grown very strongly over the past year, with over 230,000 jobs created. The unemployment rate has fallen substantially to around 6 per cent. Next year, further jobs should be created and the unemployment rate should remain steady at around current low levels.

Solid labour market

Employment has grown very strongly over the past year, with more than 230,000 new jobs created.

This increase is despite the large job losses in rural and regional Australia due to the drought. About 80,000 jobs in the farm sector were lost over the past year because of the drought.

Employment growth has been particularly strong in the construction and retail sectors. Almost 60,000 new construction jobs and 70,000 new retail jobs were created in the year to March 2003.

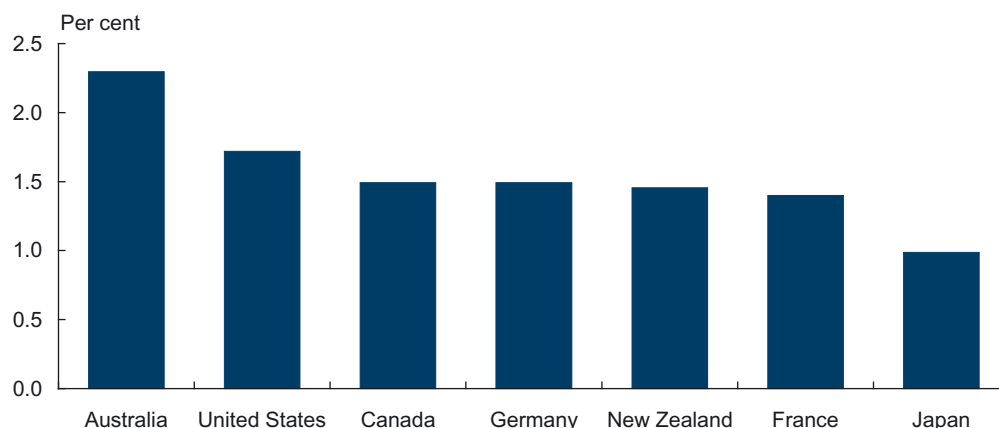
Since March 1996, more than 1 million new jobs have been created.

Employment growth is likely to slow a little next year, although rural and regional employment should start to pick up if the drought breaks.

The unemployment rate is expected to remain steady at around recent lows of 6 per cent. This is around 2 percentage points lower than it was when the Government came into office in 1996.

Australia's unemployment rate is currently almost 1 percentage point lower than that of the OECD. This is a good outcome given the difficult circumstances that we have faced.

With solid productivity growth and moderate wage pressures, the economy is well placed to deliver jobs growth in the future. Further structural reforms would help deliver further sustained reductions in unemployment and higher workforce participation.



Strong annual growth in Australian living standards (measured as income per person) over the past decade

Reform's rewards and future challenges

Australia enjoyed exceptional growth in real incomes and rising living standards during the past decade. Economic growth will slow in coming decades unless evolving community attitudes and policy reforms to lift participation in the workforce and sustain high productivity growth counteract the economic effects of demographic changes.

Rising living standards

Growth in real incomes and in living standards in Australia has been exceptional over the past decade.

Growth in Australia has surpassed that of many other developed countries, including the United States. In contrast, large continental European countries and Japan grew more slowly than the United States.

The OECD has pointed to economic reforms as the cause of strong performance in the leading economies. Australian living standards are growing faster than countries that have not engaged in structural reforms to the same extent.

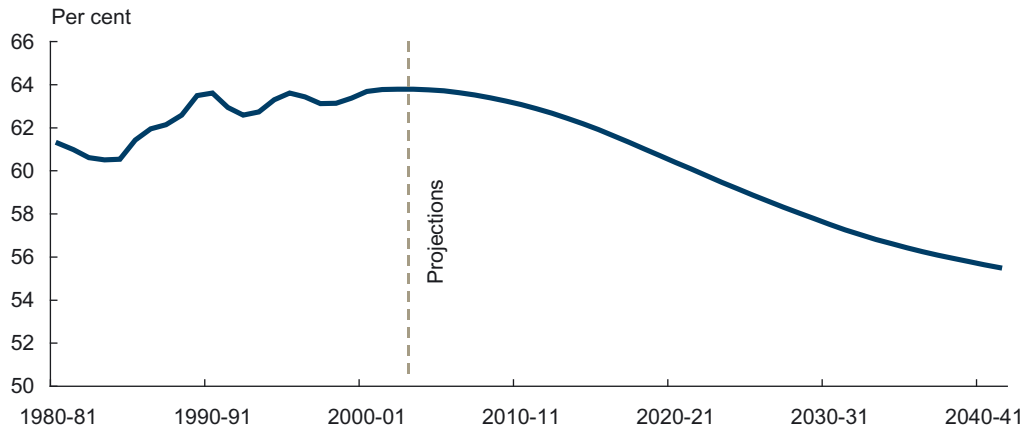
But an ageing population will create challenges and will require further policy reform if rapid growth in living standards is to be maintained.

Growth in the economy and Australian's living standards are determined by three things: the size and structure of the population, participation in the workforce and productivity. These three factors have all contributed to sustained growth in incomes and living standards.

In the future, the ageing of the population will see an increasing proportion of the population move into the over-65 age bracket. There will also be a rapid rise in the 55-65 age bracket where participation in the workforce in Australia is falling.

Government policies can have little effect on the age structure of the population.

But, policies can, in combination with evolving community attitudes, have a significant influence on the level of participation and the rate of productivity growth.



Workforce participation likely to fall, putting pressure on Australia's living standards

Improving incomes, innovation and fairness

Evolving community attitudes and policies can reduce the impact of population ageing. Policy reforms on a wide front are more likely to yield significant dividends than reforms restricted to any one area. Faster productivity growth, faster innovation, and improved participation in the workforce are driven by a combination of strong competition and flexible product and labour markets.

Future reforms

Ongoing policy reform and evolving community attitudes could lift participation rates and productivity growth to higher levels. This would raise living standards for all Australians.

Australian economic reform has been responsible for moving jobs and investment to areas of higher return, and creating a competitive environment that has driven change and innovation. While productivity growth rose in the 1990s, Australian productivity levels still trail the world's best in many sectors. And our participation rates in some groups are relatively low.

Technological advances continue to increase the potential for productivity gains. Recent comparisons of OECD member country performance show that innovation, productivity growth and income growth are all driven by high competition and flexible, lightly regulated product and labour markets.

Product market competition helps produce good employment and productivity outcomes. There is scope in a number of areas to move closer to global best practice.

Flexible labour markets contribute to strong innovation outcomes as well as high participation and low unemployment. While there has been significant reform, there is still scope to do more.

Reducing long-term unemployment or inactivity contributes to reducing poverty and inequality. Reforms that improve participation and productivity and lower unemployment make society both richer and fairer.

Education can play a critical role because it lifts both productivity and participation. An ageing population will need to engage in lifelong learning.

Appendix A

Commonwealth budget aggregates

The table below shows the main cash and accrual budget aggregates for the Commonwealth general government sector over the period 2001-02 to 2006-07. The underlying cash surplus is estimated to be \$2.2 billion in 2003-04. The fiscal surplus is estimated to be \$0.7 billion. More comprehensive information is provided in Budget Strategy and Outlook 2003-04, Statement 2.

	Actual	Estimates		Projections		
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue (\$b)	162.4	171.8	178.3	185.0	194.2	204.7
Per cent of GDP	22.8	22.8	22.4	22.0	21.9	21.9
Expenses (\$b)	166.5	170.5	178.0	186.5	194.2	202.4
Per cent of GDP	23.4	22.6	22.4	22.2	21.9	21.6
Net operating balance (\$b)	-4.1	1.3	0.3	-1.5	0.1	2.4
Net capital investment (\$b)	-0.4	-0.2	-0.4	-0.4	-0.3	-0.4
Fiscal balance (\$b)	-3.8	1.5	0.7	-1.1	0.3	2.8
Per cent of GDP	-0.5	0.2	0.1	-0.1	0.0	0.3
Underlying cash balance (\$b)	-1.0	3.9	2.2	1.3	1.2	4.7
Per cent of GDP	-0.1	0.5	0.3	0.2	0.1	0.5
<i>Memorandum item:</i>						
Headline cash balance (\$b)	2.3	3.6	1.5	0.5	11.6	14.8

Appendix B

Spending initiatives in the 2003-04 Budget

This table provides a summary of significant new expenditure measures in the 2003-04 Budget. More comprehensive information is provided in Budget Paper No. 2, *Budget Measures 2003-04*.

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m
Strong defence				
Logistics and operational requirements - additional funding	244.3	285.5	284.9	229.0
Iraq - Funding for operations and rehabilitation activities	197.9	25.8	-	-
Special Operations Command	21.6	35.8	49.2	50.2
Personnel numbers - accelerated growth	49.8	36.5	16.5	-
A Safer Australia				
Improved security infrastructure	59.5	41.1	28.0	12.0
Enhanced intelligence capability	74.7	17.2	15.5	15.4
Upgraded protective services	60.1	41.0	5.0	5.2
Our universities - backing Australia's future				
Commonwealth Grants Scheme Initiatives	-	139.0	252.2	384.2
Assistance for regional universities	27.9	30.3	31.5	32.9
Additional National Priority Funding for Student Places and Courses	11.9	47.5	49.8	51.8
Scholarships and support for disadvantaged students	11.5	35.4	56.9	79.9
Strengthening the quality of teaching and encouraging diversity	-	7.4	86.9	116.6
Growing Australia's international education industry	30.5	31.1	28.7	22.5
New spending on health				
<i>A Fairer Medicare</i>				
GP incentive payments to bulk bill patients with concession cards	46.8	80.0	103.1	115.6
Veteran access fee for Local Medical Officers	15.6	14.7	15.3	16.0
Extra GP trainees and medical students	18.0	45.9	75.4	92.3
More practice nurses and allied health workers	15.0	15.7	16.4	17.1
New Medicare safety net for patients with concession cards	12.8	17.9	17.7	18.1
New private health insurance safety net product	16.3	24.2	23.5	24.4
Renewed funding for 20 health programmes	134.3	136.6	142.0	148.2
Innovative and competitive industry				
Geoscience Australia funding to assist oil exploration	11.2	13.9	16.6	19.3
CSIRO Flagship initiative	20.0	-	-	-
Long-term research and development projects	-	-	-	378.5
Support for rural and regional Australia				
Drought assistance included in this Budget	297.4	154.2	0.6	-
Drought assistance included at MYEFO	9.7	0.8	-	-
Total impact of expenses and capital in 2003-04 Budget	1793.9	1349.1	1369.6	2125.0

Appendix C

Detailed economic forecasts for 2003-04

The table below shows Australia's macroeconomic forecasts. Economic growth is forecast to be around 3 per cent in 2002-03 and 3¼ per cent in 2003-04. More comprehensive information is provided in Budget Strategy and Outlook 2003-04, Statement 3.

	Outcomes	Estimates	Forecasts
	2001-02	2002-03	2003-04
Demand and output(a)(b)			
Household consumption	3.4	3 3/4	3 1/4
Private investment			
Dwellings	19.5	18	-5
Total business investment(c)	4.6	15	7
Other buildings and structures(c)	9.7	28	14
Machinery and equipment(c)	2.1	12	4
Intangible fixed assets	0.7	9	9
Private final demand(c)	4.9	6 1/4	3
Public final demand(c)	4.3	3 3/4	3 1/4
Total final demand	4.8	5 3/4	3
Change in inventories(d)			
Private non-farm	-0.1	1/4	0
Farm and public authorities(e)	0.1	- 1/4	1/2
Gross national expenditure	4.8	5 3/4	3 1/2
Exports of goods and services	-1.5	0	6
Imports of goods and services	2.3	13	6
Net exports(d)	-0.9	-2 3/4	- 1/4
Gross domestic product(a)	4.0	3	3 1/4
Non-farm product	3.9	4	2 3/4
Farm product	6.1	-27	25
Other selected economic measures(a)			
External accounts			
Terms of trade	2.2	2 1/4	1 3/4
Current account balance			
\$billion	-21.6	-42 1/2	-42 3/4
Percentage of GDP	-3.0	-5 3/4	-5 1/4
Labour market			
Employment (labour force survey basis)	1.1	2 1/2	1 3/4
Unemployment rate (per cent)	6.6	6	6
Participation rate (per cent)	63.7	64	64
Prices and wages			
Consumer Price Index	2.9	3 1/4	2 3/4
Gross non-farm product deflator	2.0	3	2 1/4
Average earnings(f)	4.3	3 1/4	4

(a) Percentage change on preceding year unless otherwise indicated.

(b) Chain volume measure.

(c) Excluding second-hand asset sales from the public sector to the private sector.

(d) Percentage point contribution to growth in GDP.

(e) For presentation purposes, forecast changes in inventories held by privatised marketing authorities are included with the inventories of the farm sector and public marketing authorities.

(f) Average non-farm compensation of employees (national accounts basis).

Appendix D

Historical budget and net debt data

This table provides historical data and forward estimates for Commonwealth general government cash receipts, cash payments, cash surplus and net debt. The table provides details of the cash budget aggregates for the period 1975-76 to 2006-07. More comprehensive information is provided in Budget Strategy and Outlook 2003-04, Statement 13.

	Receipts		Payments		Cash surplus		Net debt	
	\$m	Per cent of	\$m	Per cent of	\$m	Per cent of	\$m	Per cent of
		GDP		GDP		GDP		GDP
1975-76	18,316	23.1	19,876	25.0	-1,560	-2.0	-341	-0.4
1976-77	21,418	23.4	22,657	24.7	-1,239	-1.4	898	1.0
1977-78	23,491	23.5	25,489	25.5	-1,998	-2.0	2,896	2.9
1978-79	25,666	22.7	27,753	24.6	-2,087	-1.8	4,983	4.4
1979-80	29,780	23.2	31,041	24.1	-1,261	-1.0	6,244	4.9
1980-81	35,148	24.1	35,260	24.2	-112	-0.1	6,356	4.4
1981-82	40,831	24.4	40,394	24.1	437	0.3	5,919	3.5
1982-83	44,675	24.8	47,907	26.5	-3,232	-1.8	9,151	5.1
1983-84	49,102	24.1	55,966	27.5	-6,864	-3.4	16,015	7.9
1984-85	57,758	25.7	63,639	28.3	-5,881	-2.6	21,896	9.7
1985-86	64,845	26.1	69,838	28.1	-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	26.1	79,440	25.6	1,777	0.6	27,359	8.8
1988-89	88,369	25.1	82,202	23.4	6,167	1.8	21,982	6.2
1989-90	95,517	24.8	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	25.7	-11,585	-2.8	31,132	7.7
1992-93	94,448	22.2	111,484	26.2	-17,036	-4.0	55,218	13.0
1993-94	100,142	22.4	117,252	26.2	-17,110	-3.8	70,223	15.7
1994-95	109,720	23.3	122,901	26.1	-13,181	-2.8	83,492	17.7
1995-96	121,105	24.1	131,182	26.1	-10,077	-2.0	95,831	19.1
1996-97	129,845	24.5	135,126	25.5	-5,281	-1.0	96,281	18.2
1997-98	135,779	24.2	134,608	24.0	1,171	0.2	82,935	14.8
1998-99	146,496	24.7	142,159	24.0	4,337	0.7	70,402	11.9
1999-2000	165,806	26.4	152,747	24.3	13,059	2.1	57,560	9.2
2000-01	160,829	24.0	154,858	23.1	5,970	0.9	42,651	6.4
2001-02	162,524	22.8	163,507	22.9	-983	-0.1	38,022	5.3
2002-03(e)	173,907	23.0	169,989	22.5	3,918	0.5	32,420	4.3
2003-04(e)	178,905	22.5	176,733	22.2	2,172	0.3	29,826	3.7
2004-05(p)	187,126	22.3	185,802	22.1	1,325	0.2	27,578	3.3
2005-06(p)	194,941	22.0	193,706	21.8	1,235	0.1	14,110	1.6
2006-07(p)	205,158	21.9	200,490	21.4	4,668	0.5	-1,771	-0.2

(e) estimate (p) projection

