STATEMENT 1 — SUMMARY OF THE 1996-97 BUDGET

CONTENTS

STATEMENT 1 — SUMMARY OF THE 1996-97 BUDGET

PART I: BUDGET AGGREGATES

The underlying budget deficit[1] for 1996-97 is estimated at $5.6 billion. This represents:

- an improvement of $4.7 billion on the underlying deficit of $10.3 billion in 1995-96; and
- an improvement of $3.9 billion on the starting point deficit for 1996-97, that is the deficit before allowing for decisions taken by the Government since the election or announced in this Budget, including the implementation of election commitments.

For 1997-98, the budget is estimated to be in small underlying deficit, compared to an estimated starting point deficit of $8.7 billion. Measures taken by the Government since the election or announced in this Budget, including the implementation of election commitments, have therefore resulted in an improvement in the projected underlying budget deficit in 1997-98 of $7.2 billion or 1.3 per cent of GDP.

The headline measure of the budget balance is expected to show a surplus of $0.5 billion in 1996-97 and $6.6 billion in 1997-98. This compares to a deficit of $5.0 billion in 1995-96. The budget aggregates[2] for 1995-96 to 1997-98 are shown in Table 1.

Table 1: Summary of Budget Aggregates

	1995-96			1996-97			1997-98		
	Actual $m	Real Growth %	Per cent of GDP	Estimate $m	Real Growth %	Per cent of GDP	Estimate $m	Real Growth %	Per cent of GDP
Revenue									
Tax	116358	7.2	23.9	125028	4.5	24.3	132806	3.4	24.4
Non Tax	5302	8.8	1.1	5132	-5.9	1.0	4256	-19.3	0.8
Total	121660	7.3	25.0	130160	4.0	25.3	137063	2.5	25.2
Outlays *excl* net advances	131978	3.9	27.2	135810	0.1	26.4	138611	-0.7	25.4
Underlying Balance	**-10317**		**-2.1**	**-5649**		**-1.1**	**-1548**		**-0.3**
Memorandum items:									
Net Advances	-5272		-1.1	-6123		-1.2	-8186		-1.5
Headline Balance	-5045		-1.0	474		0.1	6638		1.2

The improvement in the underlying budget balance is consistent with the Government's medium term fiscal strategy — as announced on 12 March 1996 — of taking measures to reduce the underlying budget deficit by $4 billion in 1996-97 and a further $4 billion in 1997-98. The Government's objective in relation to 1996-97 has been met in full

1 The underlying budget balance is measured as revenue less outlays (excluding net advances). Net advances consist of net policy lending (new policy lending less repayment of past policy lending) and net equity transactions (equity injections/purchases less equity sales). Further discussion on the underlying budget balance as well as other measures of the budget balance is provided in Appendix A.

2 Data for 1995-96 are outcomes while data for 1996-97 are estimates and for 1997-98 are projections. Appendix B presents historical data on budget aggregates as well as the forward estimates to 1999-2000.

and, in addition, the measures announced in this Budget substantially achieve the 1997-98 objective. The improvement in the underlying budget balance means that the Government is well placed to deliver its commitment to achieve underlying surpluses during sustained periods of economic growth.

Table 2 summarises the impact on the underlying deficit of measures taken by the Government since the election or announced in this Budget. Measures aimed at reducing the underlying deficit have a gross impact of $5.8 billion in 1996-97 and $9.8 billion in 1997-98. The emphasis is predominantly on reductions in outlays. The Government's election commitments on additional outlays and tax reductions were fully funded from savings commitments announced in the election with a net contribution to the savings tasks of $1.1 billion in 1996-97 and $0.5 billion in 1997-98.

Table 2: Composition of Reductions in Underlying Deficit

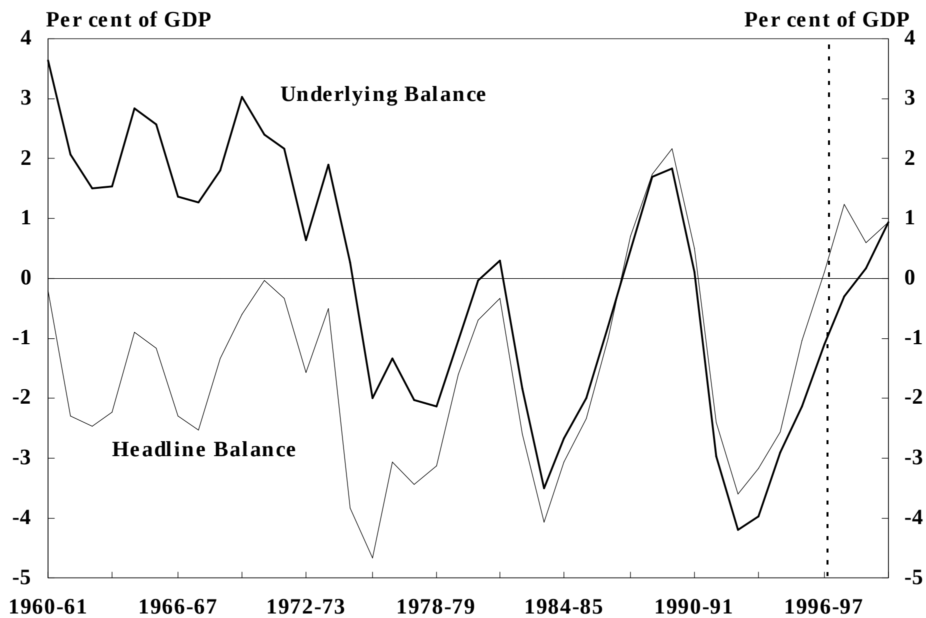
	1996-97 $m	1997-98 $m
Savings Measures		
Outlays *excl* net advances		
Election Commitments	-1603	-1820
Public Debt Interest	-120	-563
Other	-2726	-4841
Total	-4449	-7223
Revenue		
Election Commitments	413	661
Other	928	1880
Total	1341	2541
Total Savings Measures	**-5790**	**-9764**
New Expenditure Measures		
Election Commitments	571	1392
Other	949	634
Total	1520	2026
Revenue Reduction Measures		
Election Commitments	-352	-541
Other	-10	-45
Total	-362	-586
Net Impact on Underlying Deficit		
Outlays *excl* net advances	-2929	-5197
Revenue	979	1955
Total	-3908	-7152
Impact of Election Commitments		
Outlays *excl* net advances	-1032	-427
Revenue	61	120
Total	-1093	-547

The improvement in the underlying balance of 1.8 per cent of GDP from 1995-96 to 1997-98 will provide a substantial boost to public sector and national saving. The underlying balance measures directly the Commonwealth budget sector's contribution to public sector net lending (i.e. saving less investment), being negative if in deficit and positive if in surplus. The improvement in the underlying budget balance, together with sizeable equity asset sales, will also result in a decline in Commonwealth general government net debt from its current level of around 19 per cent of GDP to 13 per cent by 1999-2000.

Consistent with the Government's announcement of 12 March 1996, the improvement in the underlying budget balance has been achieved primarily through outlays restraint. Table 1 shows that outlays excluding net advances are forecast to decline by 1.7 per cent of GDP over the two years, 1996-97 and 1997-98. By contrast, revenues are forecast to increase by only 0.1 per cent of GDP over the two years.

The substantial level of (negative) net advances in 1996-97 primarily reflects the impact of the proceeds from the sale of the Commonwealth Bank of Australia. Proceeds expected from the partial sale of Telstra contribute to continued levels of (negative) net advances in 1997-98 and 1998-99. These major transactions account for the substantial temporary widening of the gap between the underlying and headline budget balances in 1996-97 and 1997-98 shown in Chart 1.

CHART 1: HEADLINE AND UNDERLYING BUDGET BALANCE



The focus on the underlying deficit requires the sale, or partial sale, of major Commonwealth assets, such as the Commonwealth Bank of Australia and Telstra, to be viewed in terms of the efficiency and productivity gains expected to result from greater private sector participation in the business, rather than in terms of short-term budgetary benefits. While the proceeds from the sale will improve the headline budget balance and reduce the Government's financing task in the years concerned — and hence its net debt — it is the underlying balance that measures the impact on public sector saving.

Table 3 provides a reconciliation of budget estimates between those at the time of the 1995-96 Budget, the 12 March 1996 estimates and the 1996-97 Budget estimates in terms of policy decisions and parameter and other variations.

Table 3: Reconciliation of Underlying Budget Balance Estimates

	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m
1995-96 Budget Underlying balance estimates(a)	**-6747**	**-590**	**2690**	**8042**
(per cent of GDP)	**-1.4**	**-0.1**	**0.5**	**1.3**
Changes between 1995-96 Budget and federal election				
Effect of policy measures(b)				
Outlays *excluding* net advances	231	552	614	616
Revenue	-180	-43	-13	50
Effect of parameter and other variations				
Outlays *excluding* net advances	415	2058	4176	4701
Revenue	-1568	-4371	-5227	-6055
Revised Underlying balance (12 March 1996)(a)(b)	**-9141**	**-7614**	**-7340**	**-3280**
(per cent of GDP)	**1.9**	**-1.5**	**-1.3**	**-0.6**
Changes between federal election and 1996-97 Budget				
Effect of parameter and other variations				
Outlays *excluding* net advances	-163	1235	749	1061
Revenue	-992	-709	-613	-1073
1996-97 Budget Underlying balance (no policy change basis)	**-9970**	**-9558**	**-8702**	**-5414**
(per cent of GDP)	**-2.1**	**-1.9**	**-1.6**	**-0.9**
Effect of policy measures	347	-3908	-7152	-6371
Outlays *excluding* net advances	347	-2929	-5197	-4847
Revenue	0	979	1955	1524
1996-97 Budget Underlying balance estimate	**-10317**	**-5649**	**-1548**	**957**
(per cent of GDP)	**-2.1**	**-1.1**	**-0.3**	**0.2**

(a) Adjusted for reclassifications.
(b) Estimates of the revised underlying balance as at 12 March 1996 vary slightly from those in the Treasurer's press release of 12 March 1996. This reflects movements in the estimates of decisions taken before the federal election as well as reclassifications.

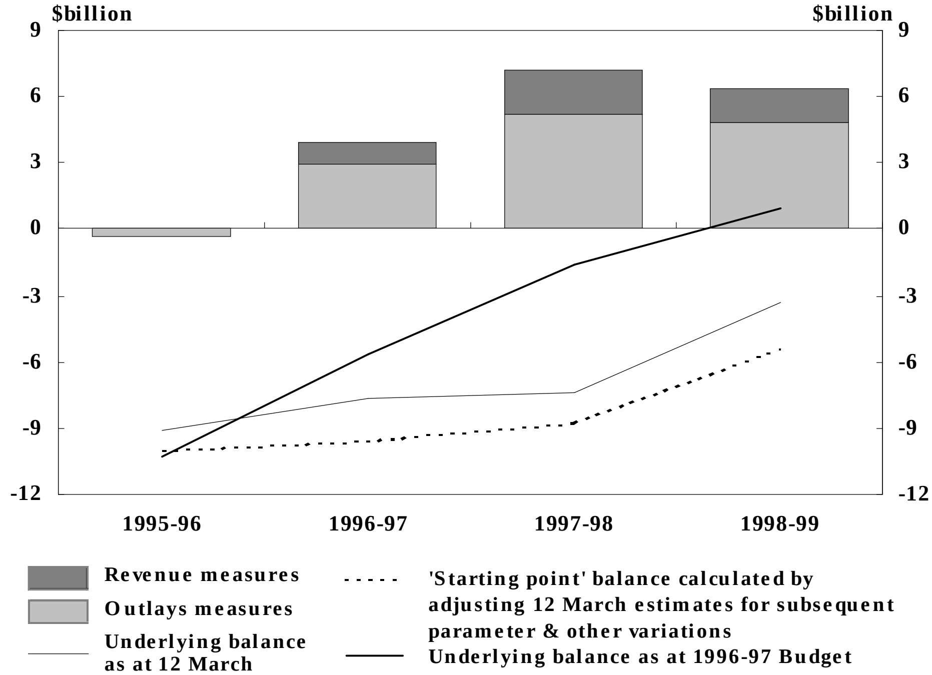
Table 3 shows that between the 1995-96 Budget and the 1996 federal election, total estimates variations of $7 billion in 1996-97 and $10 billion in 1997-98 resulted in a revised underlying budget deficit of $7.6 billion in 1996-97 and $7.3 billion in 1997-98 — as was released by the Government on 12 March 1996[3]. These variations were due to revised parameters as well as outlays and revenue decisions taken by the former Government — the latter adding around $0.6 billion to the underlying deficit in both 1996-97 and 1997-98.

Despite little change in the overall economic outlook in the period between the election and the finalisation of the 1996-97 Budget estimates, there was a further deterioration in the starting point estimates for 1996-97 and the out-years. This mainly reflected the larger than expected budget deficit for 1995-96 (some of which flows through into higher starting point deficits for subsequent years).

Without the fiscal consolidation strategy, the underlying budget balance would have remained in substantial deficit over the period — by $9.6 billion in 1996-97 and $8.7 billion in 1997-98.

Chart 2 reproduces the Table 3 data in graphical format.

CHART 2: VARIATIONS ON 12 MARCH ESTIMATES



Post-election and 1996-97 Budget outlays measures. The focus in achieving expenditure reductions has been on reassessing existing spending priorities, ensuring greater efficiency and effectiveness in the delivery of public services and enhancing accountability mechanisms. An overriding priority was to ensure that those people in the community less able to look after themselves and their families were protected and assisted.

In June 1996 the National Commission of Audit made wide-ranging recommendations in regard to the operations of Government and the scope of its activities. Box 1 provides a brief summary of the areas covered by the Commission's recommendations. Consistent with the broad thrust of those recommendations, the focus of the Government's expenditure decisions has been on greater efficiency and effectiveness in government programmes and a more rigorous assessment of the need for individual programmes.

- Net measures taken in the post election period and the Budget are estimated to reduce outlays by $2.9 billion in 1996-97 and $5.2 billion in 1997-98. This is despite the Government providing $1.5 billion in 1996-97 and $2.0 billion in 1997-98 to fund new policy in a number of high priority areas such as health insurance and family assistance (see Table 4).

---

3 See footnote (b) to Table 3.

Post-election and 1996-97 Budget revenue measures. As foreshadowed in its election commitments, the Government has introduced various tax relief measures in areas such as family assistance and health. Revenue measures have also contributed to the fiscal consolidation task with the introduction of a number of measures aimed at addressing anomalies within the existing tax system and removing opportunities for tax evasion and avoidance. The Government has also moved to reduce the revenue loss associated with some tax expenditures (including the generous taxation treatment of superannuation and research and development expenditure).

- Measures taken in the post election period and in the 1996-97 Budget include gross increases in revenue of $1.3 billion in 1996-97 and $2.5 billion in 1997-98. These increases have been partly offset by revenue reductions, primarily reflecting the impact of the Family Tax Initiative, of $0.4 billion in 1996-97 and $0.6 billion in 1997-98 (see Table 5).

BOX 1: NATIONAL COMMISSION OF AUDIT

The Government established the National Commission of Audit on 12 March 1996 to provide an independent report on the financial position of the Commonwealth. The Commission presented its report to the Government on 21 June 1996.

The Commission makes a broad range of recommendations and findings reflecting the scope of the terms of reference. In particular, the Commission:

- sets out principles for assessing government activities and programmes (including the ownership of Public Trading Enterprises (PTEs)) to determine the appropriateness of government programmes and to improve their efficiency and effectiveness;

- reviews Commonwealth/State roles and responsibilities with regard to eliminating duplication and overlap, clarifying the role of national standards, improving service delivery and reforming funding arrangements;

- examines infrastructure adequacy and efficiency issues including consideration of the management of the existing stock of infrastructure assets and the approach to assessing investment proposals;

- examines government reporting practices (with a focus on accrual reports) and presents whole of government accrual reports for the Commonwealth; and

- addresses the implementation of the Charter of Budget Honesty.

The Government has set in train a two-part process for examining the Commission's report. The first has been to act on a number of the recommendations in the 1996-97 Budget context. The second part provides for a longer term examination of the more complex issues raised in the report. This approach allows the Government to consider these findings more thoroughly and to ensure that appropriate outcomes result. Further decisions will be taken once these recommendations have been considered in more detail.

PART II: THE FISCAL STRATEGY

The Government's medium term fiscal strategy is to follow, as a guiding principle, the objective of maintaining an underlying balance on average over the course of the economic cycle. This approach will ensure that over time the Commonwealth budget makes no overall call on private sector saving and therefore does not detract from national saving; it will provide the Government with the flexibility to allow fiscal settings to change in response to economic conditions over the course of the cycle and to respond to external shocks.

The Government is committed to introducing legislation to ensure greater fiscal discipline and enhanced reporting arrangements in accordance with its election commitment to a Charter of Budget Honesty (see Appendix C).

Chart 1 shows that the Commonwealth budget position has been generally unsatisfactory for the past twenty years or so. On average over this period the Commonwealth has run a significant underlying deficit drawing on private saving to fund its activities. This record of inadequate fiscal resolve has persisted in recent years, with insufficient action taken to strengthen the budget position as economic recovery progressed. As a result, substantial fiscal consolidation has become a matter of urgency. It is essential that the structural integrity of the budget be restored while economic conditions are favourable and before Australia faces a downturn in world economic growth.

Current economic prospects provide such an opportunity, with the favourable outlook underpinned by continued strong world economic growth and sound private sector fundamentals in Australia, including continued low inflation, healthy corporate profits and positive consumer and business confidence. Despite these generally favourable conditions, the Current Account Deficit (CAD) is expected to remain high at around 4 per cent of GDP, one of the highest among OECD countries, and the unemployment rate remains over 8 per cent.

The continued high levels of the CAD are of major concern. Unemployment cannot be reduced on a sustainable basis without adequate investment. Therefore, unless additional savings are available, including from the public sector, the CAD will not be reduced over time. The FitzGerald Report[4] highlighted the risks of increasing current account deficits and of the failure to deal with their underlying cause. Increasing dependence on foreign savings, as reflected in growing net foreign liabilities, exposes the economy to sudden shifts in market confidence, leads to higher borrowing costs for Australian business and makes the economy more vulnerable to external shocks. Inevitably, the effect of these risks is to place an external 'speed limit' on the pace at which economic growth can be sustained.

PUBLIC SAVING

The only sustainable solution to our high structural CAD is to boost significantly our level of national saving. Raising public sector saving and thereby, over time, national

[4] FitzGerald, V.W., *National Saving — A Report to the Treasurer*, June 1993.

saving, is the primary objective of the Government's medium term fiscal consolidation strategy. Increasing national saving, relative to national investment, holds the key to reducing the CAD over time and thereby raising longer term growth prospects.

Part II of Statement 2 details the reasons behind the structural deterioration in the CAD over the past two decades. It shows that the present imbalance between national saving and investment — represented by the CAD — reflects a significant decline in saving and particularly public saving. The decline in public saving has in turn reflected lower saving by the Commonwealth general government sector and particularly the budget sector. Whereas in the fifteen years to 1974-75 the Commonwealth underlying budget balance averaged around 2 per cent of GDP, since 1974-75 it has averaged -1.4 per cent. Indeed, since 1975-76 in only five budgets has the Commonwealth not made a call on private saving.

The Government's fiscal consolidation strategy is aimed at ensuring that the Commonwealth budget sector saves enough to cover its investment needs, on average, over the economic cycle. With the economy well into the upswing of the current cycle this means ensuring that the underlying budget deficit — the direct contribution of the Commonwealth budget sector to the national saving/investment imbalance — is returned to balance promptly and then maintained in surplus while solid economic growth continues.

In implementing its fiscal strategy, the Government has chosen to place the emphasis on outlays. This emphasis is appropriate for several reasons.

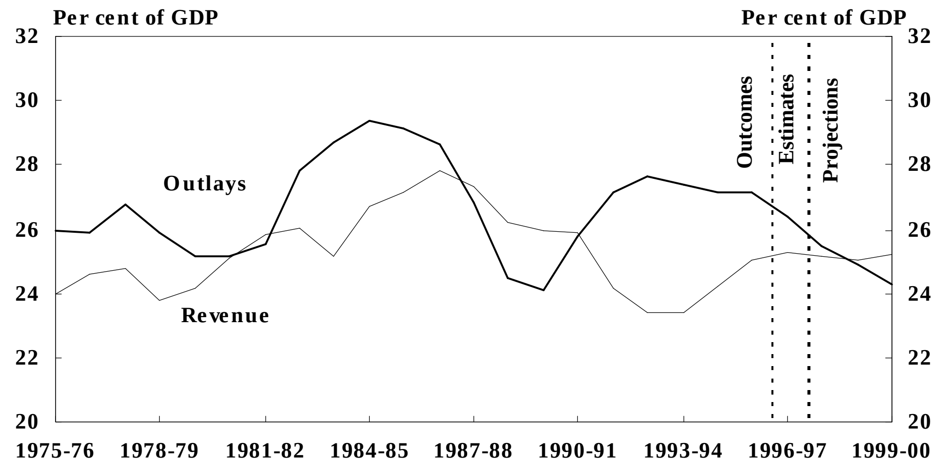
- Chart 3 shows that the main reason for the deterioration of the deficit in the early 1990s was the very strong growth in outlays — outlays excluding net advances rose from 24.1 per cent of GDP in 1989-90 to 27.2 per cent in 1995-96.

- The cross country analysis undertaken by the IMF suggests that fiscal consolidations are more successful if priority is given to outlays restraint.

- High levels of government spending, including in non-core activities, can be wasteful and create disincentives for private sector involvement which may reduce potential economic growth.

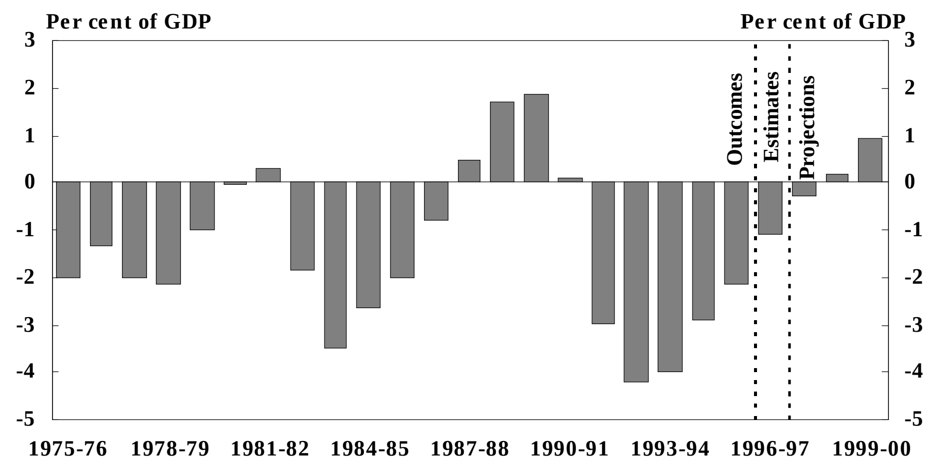
CHART 3: UNDERLYING BUDGET AGGREGATES

Panel A: Budget Revenue and Outlays[(a)]



(a) Outlays excluding net advances.

Panel B: Underlying Budget Balance



As discussed in Statement 2, whether an improvement in public saving translates into higher national saving, and an improvement in the national saving/investment balance, will ultimately depend on how the private sector's saving and investment responds to fiscal consolidation. Both the IMF and OECD have recently published reports which suggest that the private sector tends to compensate, in part, for changes to public sector saving.[5]

- The OECD analysis — based on examining episodes of significant fiscal consolidation over the past two decades — found that an improved saving performance by government tended to result in a rise in national saving.

[5] See OECD *Economic Outlook 59*, June 1996 and IMF *World Economic Outlook*, May 1996.

Accordingly, in the absence of any structural shift in the economy's investment requirements, an increase in public saving as a result of fiscal consolidation is likely to lead, over time, to a structural improvement in the CAD.

FUTURE POLICY FLEXIBILITY

If the Government is to have the capacity to use fiscal policy to support economic growth during periods of weakness it must be achieving fiscal surpluses when the economy is growing strongly and is at a more advanced stage of the cycle. The surpluses achieved at such stages of the cycle reduce Government debt and provide the capacity for the Government to responsibly run deficits when economic growth is weak.

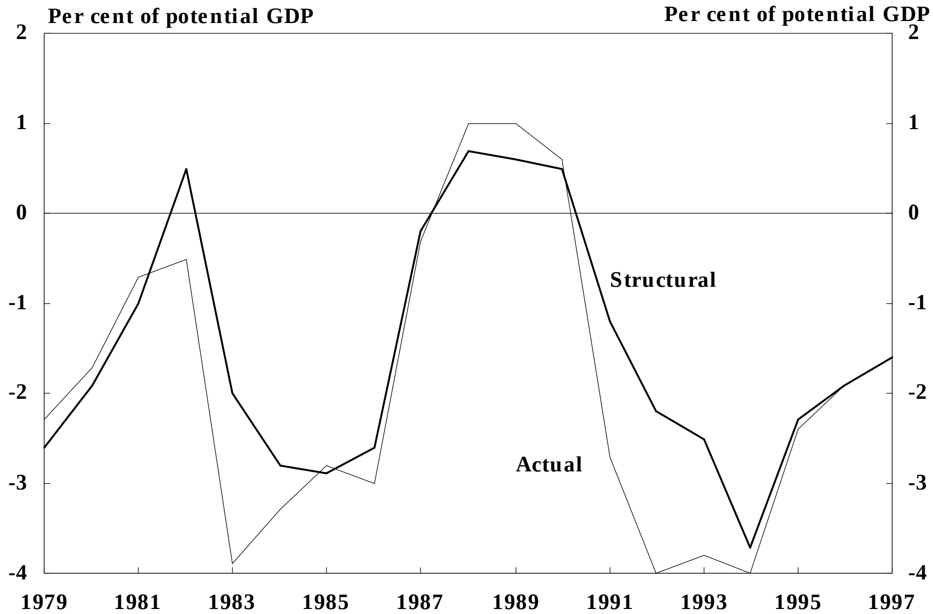
The budget position will tend to move in response to the state of the economic cycle through the operation of what are termed 'automatic stabilisers'. For instance, during periods of economic downturn, revenue tends to fall and social welfare outlays rise relative to periods where the economy is operating at full capacity. Therefore, in a downturn the automatic stabilisers move the budget towards deficit, which moderates aggregate demand weakness and helps reduce the downturn's severity. Conversely, in an upturn, revenues rise, outlays fall and the automatic stabilisers move the budget towards surplus.

Unless the budget is in a sound structural position the Government will not have the flexibility either to allow the automatic stabilisers to work in times of low economic growth, or to loosen fiscal policy. If the budget is in significant structural deficit then the passage of each economic cycle will see Government debt increase. Eventually such a position becomes unsustainable.

While the concept of a structural balance is sound, in practice its estimation is difficult and the resulting estimates subject to a number of limitations.[6] These qualify the usefulness of estimates of the structural balance as an analytical tool and emphasise the need for such estimates to be treated with caution. Chart 4 shows OECD estimates of the structural balance for Australia. The IMF also produces such estimates. When prepared using comparable data, both show that, in the absence of fiscal consolidation, Australia would remain in significant structural deficit. This emphasises, once again, the need for the significant fiscal consolidation put in place in this Budget.

6 Further discussion of the measure of the structural budget balance appears in Appendix A.

CHART 4: STRUCTURAL BUDGET BALANCE FOR AUSTRALIA
OECD Estimates(a)



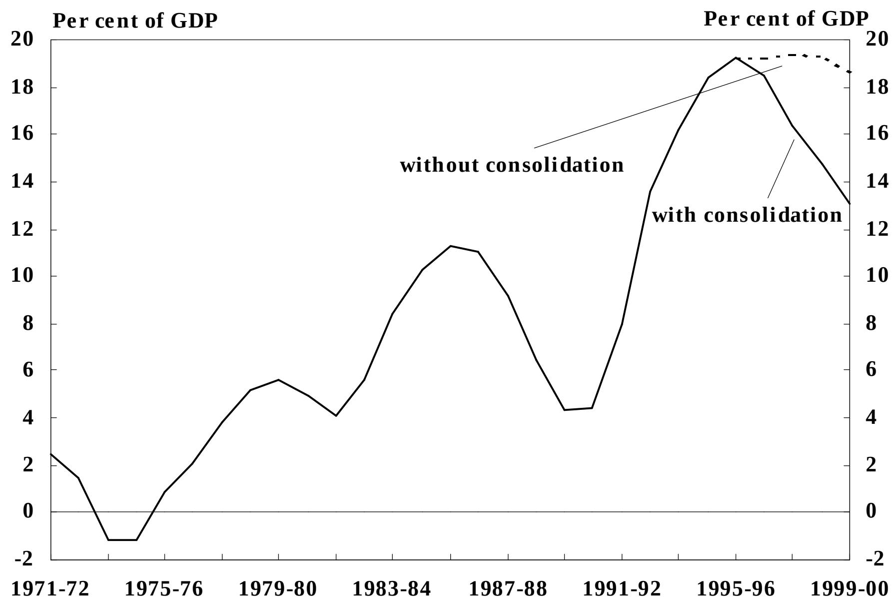
(a) Source: OECD Economic Outlook 59, June 1996. Data for general government sector. Estimates for 1996 and 1997 predate the Government's fiscal consolidation strategy announced on 12 March1996.

NET DEBT

The pace at which net debt levels have built up in recent years — particularly in the Commonwealth general government sector — is disturbing. Chart 5 shows how net debt has ratcheted up over the past 25 years. A series of large budget deficits over recent years has resulted in Commonwealth general government net debt rising from around 4 per cent of GDP in 1989-90 to over 19 per cent in 1995-96, a figure which would have been even higher in the absence of significant asset sales. Especially of concern is that the debt level will increase further without corrective fiscal action.

Fiscal consolidation will result in significantly reduced levels of Commonwealth general government net debt over the forward estimates period. Chart 5 shows that net debt is projected to fall to around 13 per cent of GDP in 1999-00 compared with levels of around 19 per cent of GDP in the absence of fiscal consolidation. Even so, net debt levels will remain above the previous peak of just over 11 per cent reached in 1985-86.

CHART 5: COMMONWEALTH GENERAL GOVERNMENT NET DEBT



High public debt levels can heighten countries' vulnerability to shocks at the same time as they impose constraints on the use of fiscal policy for stabilisation purposes. Some European industrial countries, for example, have found that the need to maintain external credibility has required them to reduce deficits and tighten policy even where a contrary policy prescription may be desirable for short term stabilisation purposes. Moreover, these fiscal improvements need to be generated at a time when the share of interest payments in total outlays is already high.

Finally, as public debt generally equates to passing the burden of at least some current consumption onto future generations, high public debt levels also raise concerns about longer term issues such as intergenerational equity.

The Government's fiscal strategy which is designed around providing for underlying budget balance on average over the economic cycle will help ensure that we avoid the risk of a ratcheting up of debt.

IMPACT OF FISCAL CONSOLIDATION ON ECONOMIC GROWTH

The main reason for undertaking fiscal tightening is to raise national saving, reduce upward pressure on the CAD and sustain economic growth over the medium term. Those critical medium term benefits must be pursued, taking account of short-term implications.

In the short term, fiscal consolidation can be expected to encourage private sector aggregate demand in a number of ways. For example, a reduction in public demand (or even its credible expectation) can boost private sector confidence. To the extent that fiscal consolidation, or its expectation, leads to lower interest rates than otherwise there will also be a downward influence on the exchange rate. Lower interest rates and exchange rates will tend to boost economic growth. There may also be positive wealth effects associated with actual or expected lower interest rates and perceptions as to reduced, or at least no higher, future tax liabilities. In the short term it is possible for the positive impact on private sector aggregate demand to be more than offset by the adverse impact on aggregate demand associated with lower public demand. However, over the medium to longer term, fiscal consolidation will enhance growth prospects by reducing the call of the public sector on national saving, reducing risk premia, and thereby providing opportunities for higher private sector investment at lower market interest rates.

Both the IMF and OECD have recently examined this issue and report recent experiences where successful fiscal consolidations were achieved in conjunction with economic growth.[7] The IMF notes in particular that in many cases countries have experienced strengthening economic growth both *during and following* a contractionary fiscal phase (see Appendix D).

Further discussion of the economic outlook and relationship between fiscal consolidation and economic outcomes is in Statement 2.

CHARTER OF BUDGET HONESTY

The Government has announced that it will introduce legislation in the Budget sittings of Parliament to establish a new fiscal framework. The framework will implement the Government's Charter of Budget Honesty election commitment. The Government's proposed legislation aims to produce better fiscal outcomes by putting in place institutional arrangements to improve the discipline, transparency and accountability applying to the conduct of fiscal policy. The adoption of the new fiscal framework through legislation has the objective of applying the new arrangements to all future governments. More details are provided in Appendix C.

PART III: PUBLIC SECTOR FINANCING

The headline budget surplus of $0.5 billion in 1996-97 implies a gross Commonwealth financing requirement (allowing for maturing debt and net payments associated with PTE superannuation) of $6 billion. Further details of the Commonwealth's budget financing and debt management strategy are provided in Statement 5.

[7] OECD *Economic Outlook 59*, June 1996 and IMF *World Economic Outlook*, May 1996.

CHART 6: NET FINANCING REQUIREMENT

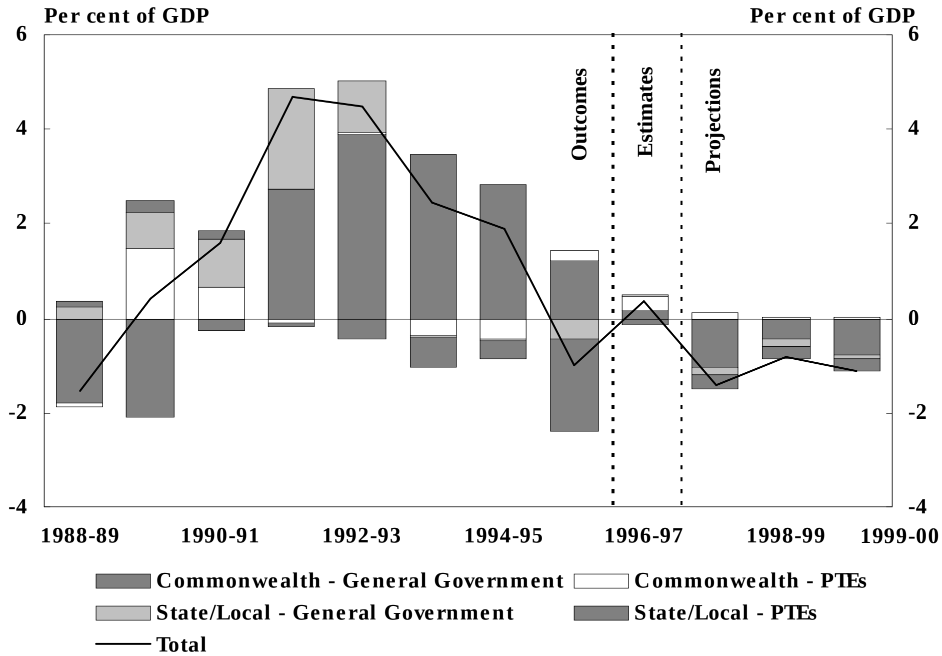


Chart 6 shows that since 1992-93 the Commonwealth's net financing requirement has been markedly reduced due in part to asset sales and repayment of State debt. The Commonwealth general government call on financial markets has been reduced from over 3.9 per cent of GDP in 1992-93 to 0.2 per cent of GDP in 1996-97. From 1997-98 the Commonwealth general government is expected to move into significant surplus (of 1 per cent of GDP) which is expected to continue into the forward years. The State/local general government sector as a whole is expected to be repaying debt over the forward years.

Analysis of the financial position of all components of the public sector is given in Statement 6.

PART IV: MAJOR VARIATIONS TO THE FORWARD ESTIMATES

MEASURES

By adopting an approach to expenditure restraint which places emphasis on the reassessment of existing spending priorities and improving the efficiency and effectiveness of the public sector, the Government has been able to substantially reduce expenditures while introducing new policy spending in a number of high priority areas, including to meet its election commitments.

Outlays — Spending and Savings Measures

The Government has introduced election spending commitments (costing $0.6 billion in 1996-97 and $1.4 billion in 1997-98) as well as providing additional funding of

$0.9 billion in 1996-97 and $0.6 billion in 1997-98 in other high priority spending areas.

The Government has also introduced a range of savings measures which will reduce outlays excluding net advances by $4.4 billion in 1996-97 and $7.2 billion in 1997-98. These savings measures are sufficient to fund the new policy spending of the Government as well as contributing the bulk of the fiscal consolidation. Table 4 presents the major spending and savings measures and their impact on Commonwealth outlays. Further details on outlays spending and savings measures are contained in Statement 3.

Provision has been made in the forward estimates for outlays and revenue effects that would have arisen from the National Heritage Trust Fund, contingent upon the partial privatisation of Telstra. However, no specific outlays or revenue measures have been identified in this Budget.

Revenue Measures

A range of revenue measures will increase revenue by $1.3 billion in 1996-97 and $2.5 billion in 1997-98. These measures are focussed on addressing anomalies within the existing tax system and removing opportunities for tax evasion and avoidance. The Government has also moved to reduce the revenue loss associated with some tax expenditures (including the generous taxation treatment of superannuation and research and development expenditure). Tax expenditures should be viewed as providing assistance similar to that provided through the outlays side of the budget. Further discussion of tax expenditures is contained in Appendix B of Statement 4. New tax relief measures in areas such as family assistance and health will be introduced costing $0.4 billion in 1996-97 and $0.6 billion in 1997-98. In addition a proportion of the tax benefits from the family tax initiative are delivered through outlays as set out in Table 4 (see footnote (b)).

Table 5 presents the major revenue initiatives and their impact on total revenue; further details are contained in Statement 4.

Table 4: Major Spending and Savings Measures

Description of Measure	Effect on outlays 1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m
SPENDING MEASURES				
Election Commitments				
Private health insurance incentives	6	489	494	500
Health Throughout Life Package	11	27	24	3
Family Tax Initiative(b)	248	483	484	486
Increased funding for CSIRO	9	32	35	39
Road Safety Black Spot Programme	36	37	38	38
ASC sports funding - Maintain the Momentum	36	36	37	37
Increased funding for university research	9	31	59	37
Establishment of Office of Employment Advocate	12	12	12	13
National Early Literacy and Numeracy Strategy for Schools	8	16	16	9
Sydney Airport Noise Amelioration Programme	-3	-10	79	75
Contribution to Adelaide airport runway extensions	28	20	-	-
Pacific Highway	30	21	21	-11
Youth involvement in environment programmes (Green Corps)	4	16	22	-
Other Election Commitments	139	183	96	62
	571	1392	1418	1287
Other Spending Measures				
Implementation of Gun Buy Back Scheme	500	-	-	-
Strategic Assistance for R&D (START) Programme	40	100	100	100
Drought measures	90	1	-	-
Other	319	533	671	560
	949	634	772	660
Total Spending Measures	**1520**	**2026**	**2189**	**1947**
SAVINGS MEASURES				
Reduction of 2 per cent in running costs	-187	-188	-190	-194
Migrant two year waiting period for Social Security payments	-28	-140	-188	-194
State fiscal contributions	-619	-640	-300	-
Amend AUSTUDY eligibility	-56	-123	-136	-143
Differential HECS: Course Cost	-133	-373	-569	-694
Labour Market Program Savings	-575	-956	-130	-175
Abolish Development Import Finance Facility	-94	-126	-130	-134
Capping the EMDG Scheme	-	-77	-122	-145
Reform of Aged and Community Care	-6	-141	-190	-231
Diagnostic Imaging and Pathology Reform Package	-62	-127	-174	-223
Tighter targeting of childcare	-17	-147	-170	-170
DFRS Efficiency Savings	-56	-113	-116	-120
Tighten JSA/NSA Activity Test Administration	-39	-105	-110	-115
Reduction in National Highway Funding	-113	-138	-157	-214
Other(a)	-2464	-3829	-4354	-5260
Total Saving Measures	**-4449**	**-7223**	**-7036**	**-8012**
TOTAL IMPACT OF ALL MEASURES	**-2929**	**-5197**	**-4847**	**-6065**

(a) Includes public debt interest savings from measures.

(b) The Family Tax Initiative is intended to reduce the burden of taxation on families, particularly those with young children. However, for practical reasons it is necessary to deliver the benefits of this tax reduction to certain lower income families through the Department of Social Security.

Table 5: Major Revenue Measures

Description of Measure	1996-97 $m	1997-98 $m	1998-99 $m	1999-00 $m
	Effect on revenue			
REVENUE REDUCING MEASURES				
Election Commitments				
Family Tax Initiative(a)	-147	-441	-591	-595
Incentives for private health insurance	-	-	-113	-114
Capital gains tax rollover relief for small business	-	-	-150	-160
Provisional tax uplift factor	-180	-	-	-
Superannuation and retirement measures	-	-47	-139	-122
Other commitments	-25	-53	-49	-49
Other measures				
Other	-10	-45	-31	-33
	-362	-586	-1073	-1073
REVENUE RAISING MEASURES				
Election Commitments				
High wealth individuals(b)	-	100	*	*
Charitable trusts	25	30	30	30
Tariff concession system and policy by-law system	313	344	369	397
Extending the reportable payments system	10	100	100	100
Other commitments	65	87	236	243
Other evasion/avoidance measures				
Withholding tax avoidance	85	100	100	100
Personal computers and related goods	55	80	80	80
Luxury car leasing	2	30	45	60
Anomalies				
Capital Gains Tax and company revenue provisions	25	110	75	75
Other anomalies	53	89	99	105
Reduction in tax expenditures				
Superannuation measures	-	523	521	582
R&D measures	59	718	630	840
Other tax expenditures	-	36	38	39
Other measures				
Medicare Levy - Gun Buy Back Scheme(c)	515	-15	-	-
Medicare Levy - High income surcharge	-	-	60	75
Cost recovery and dividends	132	162	167	179
Other	2	47	47	45
	1341	2541	2597	2950
Total Impact of all Measures	**979**	**1955**	**1524**	**1877**

(a) Partly delivered through outlays. See footnote (b) on Table 4.
(b) Additional running cost resources of $9.7 million in 1996-97 and $9.5 million in 1997-98 have been provided to the Australian Taxation Office for the development of administrative and legislative responses on a progressive and ongoing basis, to address aggressive tax planning and minimisation arrangements used by some high wealth individuals. The annual revenue at risk from these arrangements has been estimated by the Australian Taxation Office and the Treasury at $800 million, but until specific measures have been developed, reliable revenue estimates cannot be provided for 1998-99 and 1999-2000.
(c) This amount reflects the net effect of refunds and collections after 30 June 1996, with respect to the levy increase for the 1996-97 income year.

ECONOMIC PARAMETERS

Table 6 presents the major economic parameters assumed in preparing the budget estimates presented in the Budget documents. They comprise economic forecasts for 1996-97 (discussed in detail in Part I of Statement 2) and projections for the period to 1999-2000 to represent a scenario over that period.

Table 6: Major Economic Parameters (percentage change from previous year)

	Forecasts	Projections		
	1996-97	1997-98	1998-99	1999-00
Real GDP(A)	3 ½	3 ¼	3 ½	3 ½
Employment(a)	1 ¼	2	2	2 ¼
Wages(b)	5	4 ½	4	4
CPI(c)	2	2 ¾	3	3

(a) Civilian wage and salary earners (National Accounts basis).

(b) National Accounts basis, including superannuation. Includes voluntary redundancy and superannuation payments to Commonwealth public servants which boost wage growth slightly in 1996-97. Excluding this effect, wage growth would be around 4 ½ per cent in 1996-97.

(c) Headline consumer price index.

Sensitivity of the Forward Estimates to Changes in Economic Conditions

The outlays and revenue estimates in the 1996-97 Budget are consistent with the economic forecasts and projections in Table 6. Variations in economic outcomes from this scenario will have implications for the outlays and revenue estimates. Details of the estimated sensitivity of the outlays and revenue estimates to changes to the economic parameters are presented in Statements 3 and 4 respectively.

APPENDIX A: MEASURES OF BUDGET BALANCE

This Appendix discusses different cash based measures of the budget balance.

HEADLINE BALANCE

The headline budget balance used in the Budget Statements is measured as total revenue less total outlays, in accordance with longstanding practice. The measure quantifies the estimated call on the financial markets of government activity. The headline measure of the balance differs from that used by the Australian Bureau of Statistics (ABS) in the Government Finance Statistics (GFS) primarily on account of the treatment of receipts and payments by the budget sector of PTE superannuation and compensation provisions.[8] In the budget these provisions are classified as financing transactions and are not included in the calculation of the headline balance. In the ABS GFS decreases in these provisions contribute to the deficit.

UNDERLYING BALANCE

The underlying budget balance is measured as the headline budget balance adjusted for net advances. The latter comprises transactions in financial assets undertaken for policy purposes. The category consists of net policy lending (new policy loans and advances less repayments) and net equity injections (injections/purchases of equity less equity sales). Because repayments of past advances are now greater in aggregate than new policy lending, and sales of equity outweigh purchases and injections, net advances are currently negative. For 1996-97, net advances are sufficiently negative to provide for an underlying deficit but a headline surplus.

The underlying budget balance is broadly consistent with the 'net lending' concept in the national accounts, ie it excludes transactions which simply involve the transfer or exchange of a financial asset, and therefore have no impact on net public lending.[9] The underlying budget balance closely approximates the direct contribution of the Commonwealth budget sector to the national saving/investment imbalance (the current account deficit). It is the part of public net lending over which the Commonwealth Government has direct control.

The ABS also estimates a deficit adjusted for net advances which, like its headline deficit counterpart, primarily differs from the underlying balance in its treatment of provisions. The underlying balance presented in the budget is preferred because it is consistent with the ABS national accounts treatment of provisions, which does not include increases in provisions in the net lending estimates.

STRUCTURAL BALANCE

Fiscal positions vary with the progression of the economic cycle due to the operation of the so-called 'automatic stabilisers'. For instance, in an economic downturn revenues

[8] Other differences relate to the treatment of financial lease arrangements.

[9] As the GFS are prepared on a cash basis and the national accounts on a part cash, part accruals basis, timing differences in the recording of some transactions mean that the underlying balance can only approximate the Commonwealth budget sector's share in public net lending.

tend to be lower and social welfare payments higher than when the economy is operating at full capacity. For some purposes it is useful to abstract from these cyclical influences on the fiscal position. For example, it would be useful in analysing the stance of fiscal policy to know how much of the budget deficit is due to the state of the economic cycle and will be reversed as the cycle picks up and how much is attributable to the structure of the budget and will continue in the absence of specific policy adjustments.

While the concept of a structural balance is sound, in practice its estimation is not straightforward and its interpretation needs care. Several methods have been used to derive structural balance estimates, but differences in the definition and measurement mean that no method is generally accepted. The different approaches can yield significantly different estimates. These can often be traced back to issues associated with estimating the level of GDP in the absence of cyclical factors, both in current and future years, especially for an economy undergoing significant structural change.

There are other limitations to the use of structural balance estimates. Although structural balance estimates are often interpreted as being broadly indicative of discretionary fiscal policy, in most approaches taken the estimates will capture changes in all non-cyclical factors, and therefore, elements not directly related to discretionary fiscal policy. These can include the impact on revenues and outlays of changes in interest rates, interactions of the tax system with inflation, demographic changes and changes in the tax base induced by growth.

The OECD and the IMF regularly publish estimates of structural fiscal balances for member countries compiled on a consistent basis. Full details of the methodologies used by these organisations are available in Giorno, C., Richardson, P., Roseveare, D. and van den Noord, P., *Potential Output, Output Gaps and Structural Budget Balances* OECD Economic Studies No. 24, 1995 and IMF *World Economic Outlook*, October 1993 and May 1995.

APPENDIX B: HISTORICAL DATA FOR THE COMMONWEALTH BUDGET SECTOR

Table 7 provides details of the budget aggregates for the period 1960-61 to 1999-00. The underlying budget balance is revenue minus outlays excluding net advances to other sectors. Total net advances comprise net loans from the budget (new policy loans and advances less repayments) and net equity injections (injections/purchases of equity less equity sales). Care needs to be taken in making comparisons over such an extended period owing to classification differences and revisions, as well as changes to the structure of the budget. In particular, there are some inconsistencies in the data relating to the period prior to 1976-77 and those used for data from 1976-77 onwards. Year to year classification changes are typically minor in nature but it does mean that data for the earlier period may not be entirely consistent with that for 1976-77 and later years.

Table 8 provides details of tax, non-tax and total revenue for the period 1960-61 to 1999-00. These revenue data are compiled on a consistent basis from 1976-77.

Other factors which affect the comparability of budget aggregates between years are:

- adjustments in the coverage of agencies included in the accounts of the Commonwealth budget sector;

- transfers of taxing powers between the Commonwealth and the States;

- other changes in financial arrangements between the Commonwealth budget sector, Commonwealth non-budget sector agencies and the State/local government sector; and

- changes in arrangements for transfer payments where tax rebates are replaced by payments through the social security system. This has the effect of increasing both revenue and outlays as compared with earlier periods, but not changing balances. Changes in the opposite direction (tax expenditures replacing outlays) reduce both outlays and revenue.

While approximate adjustments can be made to identify trends in budget aggregates on a generally consistent basis, the further back this analysis is taken, the less manageable that task becomes.

A detailed discussion of the comparability of budget aggregates since 1960-61 is provided in Statement 5 of Budget Paper No 1, 1992-93.

Further details of the classification treatment and coverage of the budget sector are provided in Statement 7.

Table 7: Commonwealth Budget Revenue, Outlays excluding net advances and Underlying Balance[(a)]
1960-61 to 1999-00

	Revenue			Outlays excluding net advances			Underlying Balance	
	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	Per cent of GDP
1960-61	3204	9.6	21.1	2654	5.1	17.5	551	3.6
1961-62	3262	-0.6	20.9	2941	8.2	18.9	321	2.1
1962-63	3356	1.3	19.9	3105	3.9	18.4	250	1.5
1963-64	3725	9.3	19.9	3437	9.0	18.4	289	1.5
1964-65	4349	12.4	21.1	3765	5.5	18.3	584	2.8
1965-66	4774	5.9	22.1	4220	8.1	19.5	554	2.6
1966-67	5088	2.9	21.3	4766	9.0	20.0	322	1.4
1967-68	5583	6.1	21.9	5258	6.6	20.6	324	1.3
1968-69	6228	6.6	21.7	5712	3.8	19.9	515	1.8
1969-70	7157	9.3	22.5	6188	3.1	19.5	969	3.0
1970-71	8093	6.6	23.0	7251	10.5	20.7	841	2.4
1971-72	8913	3.1	22.7	8060	4.0	20.5	853	2.2
1972-73	9471	-0.7	21.1	9189	6.6	20.5	281	0.6
1973-74	11978	10.9	22.3	10965	4.7	20.5	1012	1.9
1974-75	15431	6.0	23.8	15266	14.6	23.6	165	0.3
1975-76	18365	2.4	24.0	19904	12.2	26.0	-1539	-2.0
1976-77	21546	5.2	24.6	22701	2.3	25.9	-1156	-1.3
1977-78	23601	1.4	24.8	25537	4.1	26.8	-1935	-2.0
1978-79	25814	2.3	23.8	28126	3.0	25.9	-2313	-2.1
1979-80	29793	4.8	24.2	31048	0.2	25.2	-1255	-1.0
1980-81	35320	7.3	25.1	35345	3.0	25.1	-26	0.0
1981-82	41010	4.1	25.8	40509	2.8	25.5	502	0.3
1982-83	44879	-1.4	26.0	48028	6.8	27.8	-3149	-1.8
1983-84	49308	2.8	25.2	56158	9.4	28.7	-6851	-3.5
1984-85	57989	11.1	26.7	63764	7.3	29.4	-5775	-2.7
1985-86	65278	5.1	27.1	70104	2.7	29.2	-4826	-2.0
1986-87	73553	5.0	27.9	75640	0.6	28.7	-2086	-0.8
1987-88	81558	3.8	27.3	80154	-0.8	26.9	1404	0.5
1988-89	88796	0.4	26.2	83068	-4.4	24.5	5728	1.7
1989-90	95994	1.6	25.9	89167	0.9	24.1	6827	1.8
1990-91	98092	-2.0	25.9	97734	5.1	25.8	358	0.1
1991-92	93509	-6.4	24.2	105002	5.5	27.1	-11493	-3.0
1992-93	95062	0.4	23.4	112094	5.5	27.6	-17032	-4.2
1993-94	100745	4.9	23.4	117847	4.1	27.4	-17102	-4.0
1994-95	110413	8.1	24.2	123634	3.5	27.1	-13221	-2.9
1995-96	121660	7.3	25.0	131978	3.9	27.2	-10317	-2.1
1996-97 (estimate)	130160	4.0	25.3	135810	0.1	26.4	-5649	-1.1
1997-98 (projection)	137063	2.5	25.2	138611	-0.7	25.4	-1548	-0.3
1998-99 (projection)	145322	3.0	25.1	144365	1.2	24.9	957	0.2
1999-00 (projection)	155729	4.1	25.2	150058	1.0	24.3	5671	0.9

(a) Data for the period since 1976-77 are classified on a consistent basis. Earlier data are classified on the basis applying in the relevant Budget year. The underlying budget balance is revenue minus outlays excluding total net advances to other sectors.

Table 8: Commonwealth Budget Taxation Revenue, Non-taxation Revenue and Total Revenue[(a)]
1960-61 to 1999-00

	Tax Revenue			Non-Tax Revenue			Total Revenue		
	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	% Real Growth	Per cent of GDP	Estimate $m	% Real Growth	Per cent of GDP
1960-61	2851	10.1	18.7	353	6.4	2.3	3204	9.6	21.1
1961-62	2862	-2.0	18.4	400	10.6	2.6	3262	-0.6	20.9
1962-63	2915	0.3	17.3	441	8.5	2.6	3356	1.3	19.9
1963-64	3257	10.0	17.4	469	4.7	2.5	3725	9.3	19.9
1964-65	3835	13.4	18.6	514	5.5	2.5	4349	12.4	21.1
1965-66	4209	5.8	19.5	564	5.8	2.6	4774	5.9	22.1
1966-67	4485	2.9	18.8	603	3.2	2.5	5088	2.9	21.3
1967-68	4952	6.7	19.4	631	1.2	2.5	5583	6.1	21.9
1968-69	5533	6.8	19.3	694	5.1	2.4	6228	6.6	21.7
1969-70	6391	9.9	20.1	767	5.2	2.4	7157	9.3	22.5
1970-71	7221	6.5	20.6	872	7.2	2.5	8093	6.6	23.0
1971-72	7934	2.8	20.2	979	5.1	2.5	8913	3.1	22.7
1972-73	8468	-0.2	18.9	1003	-4.2	2.2	9471	-0.7	21.1
1973-74	10907	13.0	20.3	1071	-6.3	2.0	11978	10.9	22.3
1974-75	14211	7.2	21.9	1221	-6.2	1.9	15431	6.0	23.8
1975-76	16933	2.5	22.1	1432	0.9	1.9	18365	2.4	24.0
1976-77	19783	4.8	22.6	1763	10.4	2.0	21546	5.2	24.6
1977-78	21469	0.4	22.5	2132	11.9	2.2	23601	1.4	24.8
1978-79	23514	2.4	21.7	2300	0.9	2.1	25814	2.3	23.8
1979-80	27539	6.4	22.3	2255	-11.0	1.8	29793	4.8	24.2
1980-81	32769	7.7	23.3	2551	2.4	1.8	35320	7.3	25.1
1981-82	38058	4.2	24.0	2952	3.8	1.9	41010	4.1	25.8
1982-83	41239	-2.4	23.9	3640	11.1	2.1	44879	-1.4	26.0
1983-84	45064	2.2	23.0	4243	9.1	2.2	49308	2.8	25.2
1984-85	53208	11.6	24.5	4782	6.5	2.2	57989	11.1	26.7
1985-86	59248	4.0	24.6	6030	17.8	2.5	65278	5.1	27.1
1986-87	66881	5.2	25.3	6672	3.2	2.5	73553	5.0	27.9
1987-88	75465	5.7	25.3	6093	-14.5	2.0	81558	3.8	27.3
1988-89	83897	2.5	24.7	4899	-25.8	1.4	88796	0.4	26.2
1989-90	91343	2.3	24.7	4651	-10.8	1.3	95994	1.6	25.9
1990-91	93225	-2.1	24.6	4867	0.3	1.3	98092	-2.0	25.9
1991-92	87970	-7.3	22.7	5539	11.8	1.4	93509	-6.4	24.2
1992-93	89435	0.4	22.0	5627	0.4	1.4	95062	0.4	23.4
1993-94	94023	4.1	21.8	6722	18.2	1.6	100745	4.9	23.4
1994-95	105671	10.9	23.2	4743	-30.4	1.0	110413	8.1	24.2
1995-96	116358	7.2	23.9	5302	8.8	1.1	121660	7.3	25.0
1996-97 (estimate)	125028	4.5	24.3	5132	-5.9	1.0	130160	4.0	25.3
1997-98 (projection)	132806	3.4	24.4	4256	-19.3	0.8	137063	2.5	25.2
1998-99 (projection)	141259	3.3	24.4	4062	-7.3	0.7	145322	3.0	25.1
1999-00 (projection)	151575	4.3	24.5	4154	-0.6	0.7	155729	4.1	25.2

(a) Data for the period since 1976-77 are classified on a consistent basis. Earlier data are classified on the basis applying in the relevant Budget year.

APPENDIX C: CHARTER OF BUDGET HONESTY

INTRODUCTION

The Government has announced that it will introduce legislation in the Budget sittings of Parliament to establish a new fiscal framework, implementing the Government's Charter of Budget Honesty election commitment.

The Government's proposed legislation aims to produce better fiscal outcomes by putting in place institutional arrangements to improve the discipline, transparency and accountability applying to the conduct of fiscal policy.

The adoption of the new fiscal framework through legislation has the objective of applying the new arrangements to all future governments.

PROPOSED FISCAL FRAMEWORK

The Government's proposed legislation incorporates many of the recommendations of the National Commission of Audit. The main features of the fiscal framework to be established by the legislation are outlined below.

Fiscal Policy Formulation

Fiscal policy will be required to be formulated against a set of principles of sound fiscal management contained in the legislation.

- The principles will require a government to give consideration to the impact of fiscal policy on: government debt and managing fiscal risks, national saving, the stability and integrity of the tax base, and equity between generations.

- Legislating principles of sound fiscal management will establish an appropriate environment for setting and assessing fiscal policy, without restraining government or Parliament in their pursuit of other, non-fiscal, objectives.

To assist public evaluation of fiscal policy, governments will be required to present a *Fiscal Strategy Statement* each year. The Statement should:

- outline short and longer term fiscal objectives and strategic priorities;

- specify expected fiscal outcomes or targets and specify key fiscal indicators against which fiscal policy will be set and assessed; and

- identify fiscal measures that are temporary in nature and adopted for the purpose of dampening economic downturns, and indicate the process for their reversal.

Requiring the identification of fiscal objectives and expected outcomes will enhance public understanding of a government's fiscal strategy. Moreover, the objectives and expected fiscal outcomes outlined in the Statement will form the basis for assessing the conduct of fiscal policy over time.

Fiscal Reporting

Enabling a government's fiscal performance to be assessed requires information on both fiscal objectives and progress in achieving those objectives. To enhance the availability of information on fiscal developments the Government's proposed legislation will require the following key reports:

- economic and fiscal outlook reports twice a year: at budget time and mid-year;
- a pre-election report on the economic and fiscal outlook; and
- an intergenerational report on the long run implications of government policies every five years.

The reporting requirements, discussed further below, should be taken as a minima.

The *Budget Economic and Fiscal Outlook* report will present fiscal projections for three years beyond the budget year together with the economic assumptions on which they are based. The *Mid-year Economic and Fiscal Outlook* report will update the information provided at budget time. These reports will ensure that up to date information is always publicly available.

The presentation of a *Pre-election Economic and Fiscal Outlook* report will ensure the availability of updated information prior to an election. This report is to provide an independent assessment of the economic and fiscal outlook prepared by the Secretaries to the Department of the Treasury and Finance. The report is to be released within 10 days of the announcement of an election.

The *Intergenerational Report* will help ensure that fiscal policy addresses both short-term and long-term policy issues by highlighting the long run financial implications of existing policy. This report will assess the long-term sustainability of current policies, including taking account of the financial implications of demographic change.

Another feature of the proposed fiscal framework will be a requirement that governments have regard to external reporting standards such as those for ABS government finance reporting and standards set by the accounting profession. In particular, where a government intends to diverge from these reporting standards, the proposed approach and the reasons for the departure should be explained in the *Fiscal Strategy Statement* with reference to the principles of sound fiscal management. This requirement will place a greater degree of discipline on government reporting practices.

Costing of Election Commitments

The proposed fiscal framework will also modify the so-called caretaker convention regarding the costing of Government and Opposition election commitments.

During the caretaker period the proposed legislation will allow both the Prime Minister and Leader of the Opposition to request that costings of their announced policies be prepared by the Secretaries to the Treasury and Department of Finance.

Standardised policies for requesting and carrying out policy costings are to be developed in consultation and prescribed by regulation. The relevant Secretaries will publicly release the policy costings as soon as practicable after receiving a request.

The approach provides potential alternative governments with equal access to departmental resources for costing policies during the caretaker period. This is consistent with the principle that governments should not have privileged access to the public service during the caretaker period.

The availability and public release of independent costings by departments on request can assist in better informing the electorate about the financial implications of election commitments prior to the election.

APPENDIX D: INTERNATIONAL COMPARISONS

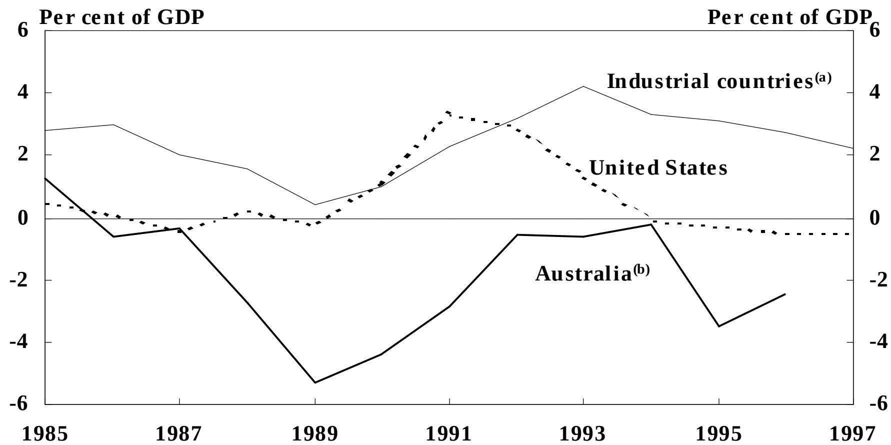
PRIVATE AND PUBLIC NET LENDING

Panel A of Chart 7 illustrates that over the last decade private sector net lending in Australia has been consistently negative, indicating that private sector saving has fallen short of private sector investment. In contrast, private sector lending in the United States has been positive, or at worst marginally negative, and, for industrial countries on average, it has been positive.

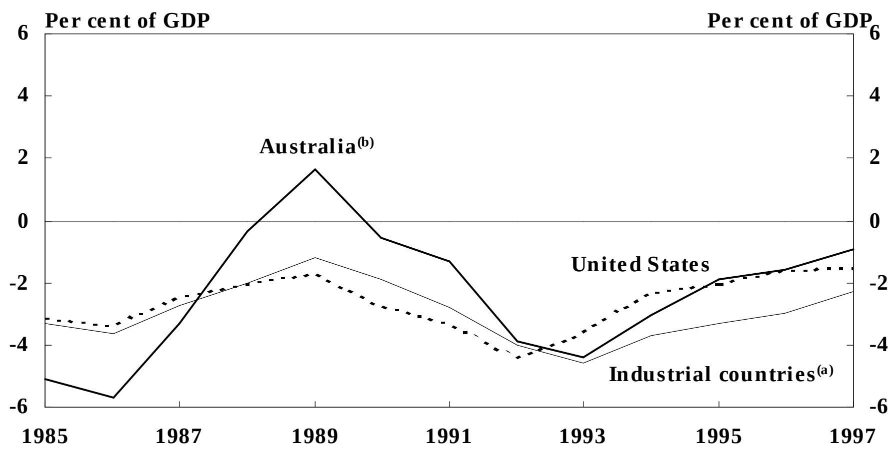
Since Australia has a saving shortfall from the private sector, the public sector cannot draw on national savings (Panel B), without courting risks by increasing its exposure to international capital markets.

CHART 7: NET LENDING

Panel A: Private



Panel B: Public



(a) Industrial countries' average. Source: IMF *World Economic Outlook*, May 1996.
(b) Data for Australia refer to fiscal years ending 30 June.

LESSONS FROM OVERSEAS EXPERIENCES WITH FISCAL CONSOLIDATION

The aim of the Government's fiscal consolidation strategy is to increase the level of national saving (and reduce pressure on the CAD) by raising public sector saving. The OECD and IMF have recently reviewed the experience of several episodes of fiscal consolidation in industrial countries.[10] Both the IMF and OECD have recently published reports which suggest that the private sector tends to compensate, in part, for changes to public sector saving.

The IMF and OECD studies also examined the impact of fiscal consolidation on GDP growth. Both studies recognise that the complexity of interactions between economic growth, interest rates and debt ratios do not lend themselves to establishing clear lines of causality between fiscal consolidation and economic growth. However, both studies identify several fiscal consolidation episodes which were achieved in conjunction with higher rates of growth within a relatively short period. The IMF study also concludes that placing greater emphasis on cutting outlays rather than increasing revenue appears to increase the likelihood of success.

The IMF study also found that where the fiscal consolidation is large and part of a broader adjustment and reform agenda, it is more likely to be perceived by the private sector as a credible government commitment and revive private sector confidence and expectations so that growth is given a boost.

The fiscal strategy set out in this Budget will result in a significant improvement in public finances — reducing Commonwealth general government net debt by an estimated 6 per cent of GDP over the forward estimates period — and provide a framework, through the Charter of Budget Honesty (see Appendix C for details), for maintaining sound fiscal discipline in the future. In addition, the fiscal strategy forms part of a broader adjustment programme which includes key structural reforms (particularly in the area of the labour market). With the consolidation focussed on reducing outlays, it is also aimed at addressing the underlying cause of the deterioration in the Commonwealth budget position. Based on the findings of the OECD and the IMF, these factors indicate that the fiscal consolidation is most likely to lead to an increase in the level of national saving.

[10] See OECD *Economic Outlook 59*, June 1996 and IMF *World Economic Outlook*, May 1996.