



## 2010 Budget

Last year's Budget was framed in a time of severe crisis and there was widespread speculation that the global economic recession would be a multi-year event. It was generally accepted that Australia was also in a severe recession and last year's budget was designed to stimulate with consequences to be addressed and remedied later.

World and Australian economic forecasts had been plunging in the first half of last year so last year's Budget forecast was made at the very nadir of the view about our economic future.

This year the world economy is in recovery and Australia officially never even had a recession. There are still economic concerns out there, particularly relating to sovereign debt and to China. It is also an election year. Usually that means handouts, but these days it means —demonstrate fiscal rectitude and outline the path back to surplus.

The biggest surprise this year was the expectation that the Budget would return to surplus as early as 2012-13, three years earlier than in last year's Budget.

The economic environment is certainly a lot better than it was a year ago although, somewhat ironically, the unemployment rate now (5.3%) is only a touch lower than it was a year ago (5.4%). The outlook 12 months ago was for a year of negative growth in 2009-10, followed by a moderate 2.25% growth in 2010-11. Instead, the economy probably grew by about 2% in 2009-10, and the forecast for 2010-11 has been lifted to 3.25%, followed by 4% growth in 2011-12.

The outlook for employment and unemployment has improved with the employment now expected to be about 4% higher in 2012-13 than forecast last year, and the unemployment rate 1.5 percentage points lower.

Inflation is projected to return to the centre of the RBA's target range, which is more optimistic than the RBA's own forecast released last week, in which inflation was expected to settle down at 3%.

The sharp rise in nominal GDP in 2010-11 sends a message that a rise in the terms of trade (of about 14% in that year) will have a significant effect on income growth.

Despite the improved path back to surplus, debt outstanding will increase, and the uninformed will continue to bleat about how bad this is. The table below shows the

starting position, as estimated by the IMF. In gross terms, debt is likely to exceed \$200 billion, but the ratio of net debt to GDP is expected to increase only to 6.1%, compared with the 10% peak projected last year.

	<b>Budget Deficit FY09 as % of GDP</b>	<b>Net Government Debt FY10 as % of GDP</b>
<b>Portugal</b>	-9.3%	81.6%
<b>Ireland</b>	-11.4%	47.8%
<b>Italy</b>	-5.3%	116.0%
<b>Greece</b>	-12.9%	104.3%
<b>Spain</b>	-11.4%	57.5%
<b>Germany</b>	-3.3%	68.6%
<b>United Kingdom</b>	-10.9%	71.6%
<b>United States</b>	-12.5%	66.2%
<b>Australia</b>	-4.1%	5.4%

Australian markets are caught up in the volatility currently affecting world markets. The announcement of the Super Profits Tax for the resource sector has already had its impact, and whatever happens to Australian markets over the short term will depend much more on the US market than on this Budget.