



## TREASURER'S ECONOMIC NOTE

This past Wednesday was an important day for Australia, with the National Accounts showing our economy grew strongly in the last quarter of 2009 and continued to outperform our peers. The PM also announced the most significant reform of our health and hospitals system since the introduction of Medicare almost three decades ago. Those two issues are the main focus of this week's economic note.

### National Accounts

The final set of National Accounts for 2009 is more than a report card on the economy – it's a report card on the efforts of the community and the Government policy response to the worst global financial and economic crisis in 75 years. They confirmed that when most advanced economies went into recession, our economy not only continued to grow, but grew solidly. While advanced economies as a group contracted by a record 3.2 per cent in 2009 in year-average terms, and the global economy contracted for the first time in the post-war period, our economy grew by 1.4 per cent. It would have been a very different story however without the Government's stimulus measures, with Treasury estimates indicating that the economy would have contracted by 0.7 per cent in 2009 without them.

Our economy grew by 0.9 per cent in that final quarter of the year, to be 2.7 per cent higher through the year, a really solid outcome for an economy that's the envy of the developed world. The economy continues to strengthen, underpinned in part by our fiscal stimulus but increasingly by a recovery in private sector demand. Take household consumption spending, which rose by 0.7 per cent in the quarter, reflecting welcome strength in consumer spending underpinned by falling unemployment and higher levels of confidence. New business investment increased by 4.7 per cent in the quarter, with new machinery and equipment investment rising by 11.0 per cent as businesses took advantage of the last opportunity to access our Small Business and General Business Tax Break.

Our Building the Education Revolution program's impact in non-government schools helped offset softness in non-residential building investment, which fell for the fifth straight quarter to be 20.5 per cent lower through the year. Public investment spending rose by 10.2 per cent in the quarter, driven by our infrastructure investments. I saw first-hand the impact the school modernisation program is having in my neck of the woods, when I attended Friday's official opening of Taigum State School's new \$1.5 million library and \$1 million hall and Everton Park State School's new \$2.5 million hall and science lab.

IMF Deputy Managing Director Murilo Portugal was in Sydney last week, and in a speech at the Australian School of Business, argued that "Australia has been remarkably resilient to the global turmoil. The economy was hit by the global financial crisis. But growth was stronger than in any other advanced economy thanks to a timely and significant policy response, robust demand for commodities from China, a flexible exchange rate, and a healthy banking sector." He said that "the still fragile nature of the global recovery suggests that withdrawal of policy stimulus should continue to proceed gradually."

CommSec Economist Savanth Sebastian said the National Accounts showed that Australia was "probably the strongest economy of any developed or advanced nation". But as Heather Ridout, chief executive of the Australian Industry Group added, we should "remain very wary of the impact of the withdrawal of monetary stimulus and any acceleration of the planned withdrawal of the fiscal stimulus."

### National Health and Hospitals Network

In an address to the National Press Club on Wednesday, the PM laid out our comprehensive plan for better health services and better hospitals for all Australians by building a new National Health and Hospitals Network that is nationally funded and locally run by Local Hospital Networks. This is a massive

economic reform, which will see us pay Local Hospital Networks directly for each public hospital service they provide, rather than handing over block funding grants to the States as in the past.

For the first time in history, the Australian Government will become the majority funder of the public hospital system – permanently reversing the decline in Commonwealth funding for public hospitals that we've seen over the past decade. The Australian Government will also take full policy and funding responsibility for GP and primary health care services in Australia.

These economic reforms will fundamentally change the federation, putting an end to the blame game and placing our health and hospitals system and national finances on a sustainable footing. The 2010 Intergenerational Report, *Australia to 2050*, warned of ballooning health costs hitting the Australian economy and underscored the need for reform of the health system to prevent it collapsing under its own weight. It's not well known, for example, that if we allowed current trends to continue, by 2045-46 spending on health and hospitals would consume the entire revenue raised by state governments.

Instead, we will dedicate around one-third of GST revenue directly to health spending and shoulder a greater share of the growing cost of health. This means for every dollar of GST you pay, 33 cents of it will be invested directly in a more efficient health and hospital system.

The Business Council of Australia views health reform as "one of the most important and challenging aspects of national policy because of its call on the federal budget but also because it underpins Australia's productive capacity and individual wellbeing." BCA President Graham Bradley said that "health reform is one of the BCA's top priorities because Australia's economic and social prosperity relies on the health of its population. If we improve our health system, more Australians will lead fulfilling lives, including finding and staying in jobs in which they work effectively."

## **Reserve Bank**

On Tuesday the independent Reserve Bank Board took the decision to raise official interest rates by 0.25 percentage points to 4.0 per cent. Tuesday's rate rise is part of a process that the RBA has been flagging for some time – moving rates from emergency levels to what they describe as more normal settings as economic activity normalises. Whilst any rate rise is always tough on the family budget, I think most families understand that rates can't stay at record lows forever. Official rates today are still at 1970s levels, which means that a family on a \$300,000 mortgage will still be paying around \$550 less per month in mortgage repayments than they were 18 months ago – or around \$6,500 less a year.

## **International Women's Day**

In Sydney tomorrow with Tanya Plibersek, the Minister for the Status of Women, I'll mark International Women's Day with 95 organisations receiving an EOWA Employer of Choice for Women citation. These organisations are leading the way in improving outcomes for women by working to remove barriers to women reaching their full potential in the workplace. Improving women's economic and social outcomes is important to developing a stronger and more robust economy. We have taken a number of steps to improve the working conditions of women and improve their opportunities at work – increasing support for child care, making changes to the Fair Work Act to benefit women in particular, and establishing Australia's first comprehensive Paid Parental Leave scheme from 1 January 2011. We're determined to build a modern Australia where anyone can achieve their goals regardless of gender, and we'll continue to work for real progress in improving the working conditions and prospects of Australian women.

## **Wayne Swan**

Treasurer of Australia  
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