

**Senate Economics Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

**Additional Estimates**

2016 - 2017

**Division/Agency:** Macroeconomic Conditions Division

**Question No:** 275

**Topic:** 2016-17 MYEFO Parameter changes

**Reference:** Written

**Senator:** Ketter, Chris

**Question:**

Referring to Table 1.2 “Major economic parameters” on page 2 of the 2016-17 MYEFO:

1. Can you confirm that in the PEFO, in 2016-17 and 2017-18, real GDP was forecast to grow at two and a half and three per cent respectively? And that in the MYEFO, for those same two years, it was downgraded to two per cent and two and three quarters per cent respectively? What were the reasons for the half a percent downgrade in 2016-17, and the reasons for the quarter of a percent downgrade in 2017-18?
2. All other things being equal, what effect did these downgrades have on the budget bottom line?
3. Turning to employment growth, employment growth for 2016-17 and 2017-18 was downgraded, but 2018-19 was upgraded between the PEFO and the MYEFO, is that correct?
4. What were the reasons for the downgrades in the first two years, but the upgrade in the third year?
5. All other things being equal, what effect did these changes have on the budget bottom line?
6. On the unemployment rate, there is an improvement in the two projection years, from five and a half to five and a quarter percent between the PEFO and MYEFO? What is the reason for this?
7. All other things being equal, what effect does this improvement have on the budget bottom line?
8. On the wage price index, there is a downgrade for 2016-17 and 2017-18 of a quarter of a percent in both those years? What is the reason for this?
9. All other things being equal, what effect does this downgrade have on the budget bottom line?
10. On nominal GDP, there is a significant upgrade in 2016-17 – from four and a quarter per cent to five and three quarters of a per cent. Can you go into some more detail as to why that occurred? What was the effect on the budget bottom line in 2016-17 as a result?
11. For the rest of the years, there is a downgrade for the nominal GDP forecasts and projections, correct? What is the reason for this?
12. What is the effect on the budget bottom line, again all things being equal, as a result of this downgrade?

**Answer:**

This information can be found in PEFO Table 2 and in MYEFO Table 1.2, Part 2 (refer to Table 2.2), and Part 3 (refer to Table 3.10 and Table 3.14).

The economic projections in MYEFO for 2018-19 and 2019-20 are not forecasts. Rather, they are based on a medium-term projection methodology which assumes that spare capacity in the economy is absorbed over five years following the forecast period – this means the economic projections are affected by changes to the short-run forecasts.

An assessment of the factors impacting the economic outlook can be found in Part 2 of MYEFO. Part 3 of MYEFO provides an overview of the effects of economic parameter variations on the Budget bottom line.