

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2014 - 2015

Department/Agency: Treasury

Question: BET 21-22

Topic: Structural Budget Balance beyond 2020-21

Reference: Hansard page no. 77 - 01 June 2015

Senator: Ketter, Chris

Question:

BET 21-22 - Senator KETTER: I will move on to page 3-13. Mr Ray, could you highlight the pathway of the structural budget balance beyond 2020-21?

Mr Ray: You really are asking the wrong people. These estimates are calculated in the Macroeconomic Group. Once the terms of trade have come back to their structural level, the point estimate of the structural balance becomes the underlying cash balance. I think by 2022-23 that is the case. If you really want to go into detailed questions, I will need to either bring back my macro colleagues or take the question on notice.

Senator KETTER: It is not too much detail, but I was wondering if you could confirm whether I was right in assuming that the structural budget balance just creeps into surplus but then goes backwards out to 2025-26.

Mr Ray: Out beyond the early part of the next decade, as I tried to explain—and did poorly, as I am not an expert—it follows the underlying cash balance.

Senator KETTER: So what has happened to the structural budget balance since the budget last year?

Mr Ray: I need to check what I need to add to an answer, so I am happy to take that bit on notice. But I would say that in broad terms out there what has happened to the structural budget balance mirrors what has happened to the underlying cash balance.

Senator KETTER: Would you agree with me that it has deteriorated significantly?

Mr Ray: I would agree with you that it is lower than it was, as is the underlying cash balance out there.

Senator KETTER: So, in other words, the structural position of the budget has worsened since the budget last year?

Senator Cormann: As I have indicated, since the budget last year, there is about \$52 billion less in revenue than was anticipated at the time because of circumstances outside of the direct control of the government, in the main. Over that period, the impact on revenue of lower iron ore prices, which no government controls, is about \$20 billion since last year's budget, as was indicated by the Secretary of the Treasury this morning. So if your question is whether the position has worsened compared to last year's budget, in the context of global economic headwinds that were unanticipated at the time, yes. As to whether the government now heading in the right direction as a result of the decisions we are making, the answer is also yes. Are we in a stronger position than we would have been if we had not made some of the decisions that we have made since last year's budget? That is a resounding yes. Is there further to go? Yes, there is. Obviously we are very conscious of that. We know that there is more work to be done, and we do not resile from that one bit.

Senator KETTER: Thank you. Mr Ray, if you agree that the structural position of the budget has worsened, do you have an estimate as to by how much?

Mr Ray: We would by definition because we can compare the two, but I would need to take it

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on notice.

Senator KETTER: Am I right in assuming that in the last year it would equate to around one per cent of GDP?

Mr Ray: I would need to take it on notice to give you an exact thing, but you can get an idea if you look at the difference between the projections that I was discussing earlier with senators McAllister and Canavan in chart 1. Once you get to the end of those projections the underlying cash balance and the structural balance are coincidental.

Answer:

BET 21-22 - Consistent with the underlying cash balance, structural budget balance estimates in the 2015-16 Budget average around $\frac{1}{4}$ per cent of GDP lower per year from 2015-16 to 2023-24 compared to estimates in the 2014-15 Budget.