

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2016 - 2017

Department/Agency: Treasury

Question: BET 93-98

Topic: Nominal GDP Growth

Reference: Written - 5 May 2016

Senator: Penny Wong

Question:

"(Budget Paper 1, 2-27)

Nominal GDP growth is expected to be lower than forecast in 2015-16 MYEFO (15 December 2015), reflecting weaker inflation and lower growth than forecast.

93. Despite slowing growth in the March quarter, the Budget assumes nominal GDP growth will increase from 2.5% this year, to 4.25% next year, and 5% in the remaining 3 years of the forward estimates. What is the underlying source of faster growth assumed in these forecasts?

Compare this to the more sobering forecast of international credit ratings agency Moody's which projects nominal GDP at just 3.7% next year.

94. How much larger would net debt be if Moody's forecasts turn out to be closer to the mark?

95. How much larger would the deficit be if Moody's are right?

96. What impact would falling commodity prices (iron ore, coking coal) have on nominal GDP growth?

97. What impact would a depreciation of the Australian dollar have on nominal GDP growth?

98. Noting that the RBA reduced the cash rate by 25 basis points on Tuesday, and this was (mostly) passed on by the Big Four, what impact would a period of sustained weak inflation have on nominal GDP growth?"

Answer:

93. Please refer to responses given to the Senate Economics Legislation Committee on Friday 6 May 2016, available through the Official Hansard.

94 and 95. Budget Statement 1, 7, presents a number of scenarios which provide a rule of thumb indication of the sensitivity of receipts, payments and the underlying cash balance to changes in the economic outlook over the forecast period.

95. Budget Statement 1, 7-13 presents a sensitivity analysis for a 10 per cent fall in world non-rural commodity prices.

96. Budget Statement 1, 7-13 presents a sensitivity analysis for a permanent 10 per cent fall in world prices of non-rural commodity exports. Budget Statement 2-28 presents analysis of a change in the iron ore price.

97. The impact on nominal GDP from a depreciation in the exchange rate will depend on a number of factors but most importantly the type of shock causing the dollar to depreciate.

98. The Pre-Election Economic and Fiscal Outlook (p. 14) includes a discussion on the impact if inflation outcomes were consistent with the lower bound of the range presented in the RBA May 2016 Statement on Monetary Policy.