Question: **SBT 1010**

Topic: **Review of Treasury Macroeconomic and Revenue Forecasting**

Written: **28 November 2013**

Senator Wong asked:

1010. Can Treasury please provide an update on its detailed response to each of the three recommendations?

Answer:

1010. As part of continuing to improve its forecasting processes, Treasury is implementing the recommendations of the 2012 *Review of Treasury Macroeconomic and Revenue Forecasting*. We have refocussed and strengthened our business liaison program and implemented processes to more effectively share the insights gained from engagement within the department, as well as to exchange key messages between the Reserve Bank of Australia and Treasury. We have also made progress in improving access to our forecasting and modelling documentation, with the publication of working papers on modelling aggregate employment and long-term international GDP projections. As a complement to the existing discussion on revenue forecasting errors, a review of economic forecast errors was published in *Budget 2013-14* and a working paper on confidence intervals around the Budget economic and fiscal forecasts was released in November. We have also improved our long-term terms of trade projection methodology, with the new approach taking into account the three phases of the mining boom (see Box A: Medium-term projection of the terms of trade in the *Mid-Year Economic and Fiscal Outlook 2013-14* (MYEFO), page 17).

To further improve transparency with relation to forecasts, page 16 of MYEFO also contains charts as to where the MYEFO forecasts for real GDP and unemployment sit within Consensus forecasts.

Improvements to the forecasting methodology for tax revenue have also been progressed. In particular, the company tax forecasting methodology has been improved to explicitly forecast the key sectors of mining and finance (see Box D1: Revisiting the company taxation forecasting methodology in *Budget 2013-14*, page 5-42), and the construction of a micro simulation model for use in forecasting personal income tax is advancing well. Treasury continues to liaise with the ATO regarding forecasts for all sources of tax revenue, including company tax.

Treasury has also been expanding its capacity to undertake international scenario analysis using a range of sophisticated modelling techniques. Some of this analysis was workshopped at a modelling conference at the Australian National University in December 2013.