

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

20-21 November 2013

Question: SBT 1002-1009

Topic: Budget and Economic Forecasts

Written: 28 November 2013

Senator WONG asked:

1002. I refer Treasury to Appendix G of PEFO and Chart G1 on 'structural budget balance estimates'. Why does that Chart show the structural balance improving from 2012-13 to 2018-19? Please provide an updated chart as per MYEFO.
1003. Was this structural balance forecast to improve despite the impact of lower terms of trade and lower nominal GDP flowing through to the Budget?
1004. What has happened to nominal GDP since PEFO? Could Treasury please quantify the impact that lower than expected nominal GDP has had on the UCB since PEFO?
1005. What was the percentage change in government spending from 2011-12 to 2012-13 in both nominal and real terms?
1006. Is this the fastest fall, in real terms, in government spending in the last few decades?
1007. What role did this fall in government spending have for the fall in the budget deficit from 2.9 per cent of GDP in 2011-12, to 1.2 per cent of GDP in 2012-13?
1008. Going back to the Treasury Secretary's speech to the Australian Business Economists on 21 May 2013. In that speech he went through the near-term outlook, including the transition in the resources sector from the investment to production/export phase. He spoke of a need for a second transition, for growth driven by the non-resources sectors – a transition supported by record low interests but challenged by a high Aussie dollar and weakness in the global economy. Is there still a need for this transition to occur in light of more recent economic developments?
1009. In that speech, the Treasury Secretary concluded this observation by stating: 'Still, with a low unemployment rate, well-contained inflation and low public debt, Australia embarks on this transition with some of the strongest economic fundamentals in the developed world'. Does that statement still apply?

Answer:

1002. The improvement in the structural budget balance over the forward estimates period shown at PEFO reflects announced policies as at the August 2013 Economic Statement. Beyond the forward estimates (from 2017-18), the improvement in the structural balance is driven by assumptions underpinning medium-term budget projections. In particular, real growth in spending is assumed to be held to 2 per cent a year, on average, until the underlying cash surplus reaches at least 1 per cent of GDP, and the level of tax receipts is assumed to recover to 23.7 per cent of GDP (in 2018-19) and to be capped at that level thereafter. These assumptions are consistent with the then Government's fiscal strategy.

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

20-21 November 2013

Updated estimates of the structural budget balance were published in the 2013-14 MYEFO (Part 3, Chart 3.6).

1003. The structural budget balance estimates presented at PEFO incorporate downward revisions to projections of both the terms of trade and nominal GDP from those presented at the 2013-14 Budget, and their associated effects on projections of the headline and underlying cash balance.

The level of the structural budget balance is underpinned by assumptions around the long-run, or structural, levels of economic variables (such as the terms of trade). As such, changes in short-run forecasts – such as those relating to the terms of trade – should not significantly change the level of the structural budget balance.

As noted above, the improvement in the structural budget balance over the forward estimates reflects announced policies as at the August 2013 Economic Statement. Beyond the forward estimates the structural budget balance improves due to the application of assumptions consistent with the then Government's fiscal strategy.

1004. Since the 2013 PEFO, there has been a significant downgrade to forecast nominal GDP growth, reflecting lower forecast growth in the real economy, wages and domestic prices.

Please refer to page 2 of the 2013-14 Mid-Year Economic and Fiscal Outlook where it states:

“Firstly, a softening in the economic outlook has resulted in significantly lower nominal GDP, which has largely driven the reduction in tax receipts by more than \$37 billion over the forward estimates. The softer economic outlook, coupled with changes in demand-driven programmes, has also increased payments across the forward estimates.”

1005. Government payments from 2011-12 to 2012-13 decreased by 1.0 per cent in nominal terms and by 3.2 per cent in real terms.
1006. Yes.
1007. The reduction in government spending between 2011-12 and 2012-13 contributed 15.6 per cent of the improvement in the underlying cash balance, as published in the 2012-13 Final Budget Outcome.
1008. Yes. As outlined in MYEFO, the transition from resources to non-resources drivers of growth has been slower than expected, and with resources investment forecast to decline more sharply, a greater contribution from the non-resources sector will be necessary for real GDP growth to return to around its trend rate.
1009. Yes.